

Asia	50.15	Indonesia	10.00	Philippines	10.00
Bahamas	10.00	Italy	10.00	Portugal	10.00
Belgium	10.00	Japan	10.00	S. Arabia	10.00
Canada	10.00	Jordan	10.00	Singapore	10.00
Denmark	10.00	Korea	10.00	Spain	10.00
France	10.00	Lebanon	10.00	Sweden	10.00
Germany	10.00	Luxembourg	10.00	Switzerland	10.00
Greece	10.00	Malaysia	10.00	Taiwan	10.00
Ireland	10.00	Mexico	10.00	Turkey	10.00
Israel	10.00	Netherlands	10.00	U.A.E.	10.00
Italy	10.00	Norway	10.00	U.S.A.	10.00

No. 29,007

EUROPE'S BUSINESS NEWSPAPER

Wednesday February 23 1983

D 8522

Japan agonises
over economic
growth, Page 14

NEWS SUMMARY

GENERAL

British water strike over

Britain's four-week-old national water strike was called off last night after unions representing 20,000 workers and employers accepted the findings of a committee of inquiry which gave pay rises of about 11 per cent over 16 months.

The unions hailed the settlement as a victory but the employers, the National Water Council, insisted that the report by Dr Tom Johnston did not recognise the unions' central claim for an improvement in the relative earnings position of water and sewerage workers.

Even so, the size of the deal - which means increases of 14 per cent on basic rates - is a blow to government hopes of restraining the level of pay increases. The deal will be seen as a target for other public sector groups with proven industrial muscle. Earlier story, Page 8.

Strauss warning

West German CDU leader Franz-Josef Strauss warned that U.S. forces might withdraw from Germany if the country rejected the stationing of medium-range Pershing missiles - a major issue in the campaign for next month's elections.

Hijack ordeal

The three Libyan hijackers who have held 181 hostages at Valletta, Malta, for two days, have appealed to the U.S. to mediate in negotiations to allow them to fly to Morocco.

Tax office blast

A woman was killed and six others hurt when a bomb exploded at Sweden's central tax office in Stockholm.

Gandhi appeal

Indian Premier Mrs Indira Gandhi appealed for a halt to the bloodshed in elections which has left hundreds of people dead in Assam. Page 6

Border tension

Liberia said 2,000 troops have been ordered to the Sierra Leone border after a false report in Freetown that Liberian head of state Samuel Doe had killed his wife.

Baby killings probe

Ontario's attorney-general reported seven pieces of evidence that seven babies were deliberately killed by an overdose of the heart drug digoxin at Toronto's Hospital for Sick Children. Police are investigating.

Gruelling tour

Pope John Paul will visit eight countries in nine days on his tour to Central America and the Caribbean next month.

Lebanese rescued

U.S. marine helicopters rescued four kidnapped victims in central Lebanon as the international peace-keeping force joined mercy operations. Beirut Radio said 43 have died on the Beirut-Damascus motorway.

Italian N-plants

Italy has decided to start work on three large nuclear power stations within two years. The Government is backed by a law allowing it to go ahead with construction even if local authorities object. Page 16

Briefly...

Karachi: Six people were hurt when police opened fire on hundreds of Sunni Muslim protesters. See Salvador: Guerrilla radio said three missing foreign journalists were alive.

Nairobi: Kenya released 473 people accused over an abortive coup attempt last August.

BUSINESS

Brazil unveils aid for industry

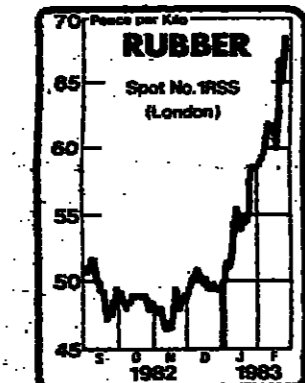
BRAZIL cut import duties on raw materials by 10 per cent to 25 per cent in an economic package designed to aid industry after the devaluation of the cruzeiro last week. At the same time, it has asked to delay repayment of a \$1.2bn emergency loan co-ordinated by the Bank for International Settlements in December. Page 4.

GHANA has agreed in principle on a recovery programme backed by the International Monetary Fund. It is believed to involve a stand-by facility of more than SDR 200m (\$212m). Page 16

GOLD fell by \$16.5 to \$488 in London. It slipped by \$12.5 in Frankfurt to reach \$488.25. In Zurich it closed \$18 down at \$486.5. In New York the Comex February settlement was 25 points down at \$486. Page 28.

DOLLAR rose to DM 2.412 (DM2.395). FF 6.64 (6.725); SwFr 2.02 (1.993); and Y24.15 (Y23.25). The Bank of England trade-weighted index was 119.3 (118.6). Page 32.

STERLING closed 1.35 cents down at \$1.5285 and fell to DM 3.67 (DM 3.675). FF 16.4 (FF 16.485), Y25.25 (Y25.75) but it rose to SwFr 3.0725 (SwFr 3.06). Its trade-weighted index hit a 44-year low at 79.7 (80.2). Page 32.



RUBBER PRICES rose sharply in London to the highest level for almost three years. The No. 1 spot quotation jumped 3.5p to 65.5p a kilo. Page 29

LONDON: FT Industrial Ordinary Index fell 2.2 to 642.4. Government Securities weakened. Page 25. FT Share Information Service, Pages 30, 31.

WALL STREET closed down 12.42 at 1,080.40. Page 25. Full share listings, Pages 26-28.

HONG KONG: Hang Seng index added 6.1 to close at 990.52. Page 25, 28.

TOKYO: Nikkei Dow index lost 69.11 to end at 7918.16. Stock Exchange index shed 3.17 to 579. Page 25, 28.

FRANKFURT: Commerzbank index fell 5.3 to 791.3. Page 25, 28.

AUSTRALIA: All-Ordinaries index lost 0.6 to close at 504.2. Page 25, 28.

DEERE, the leading U.S. farm and industrial machinery manufacturer, reported a \$28.5m loss for the first quarter to January 31, compared with a \$33.7m net profit. Page 17.

AMERICAN Motors fell deeper into the red in 1982 with a \$153m loss, against \$136.8m. Page 17.

MANNESMANN, West German steel pipe and mechanical engineering firm, held net profits at about the 1981 figure of DM 272m (\$113.3m), despite a 7 per cent sales increase. Page 17.

ATARI, the video games subsidiary of Warner Communications, is to lay off 1,700 workers in California.

JAKARTA bankers fear a 25 per cent devaluation of the rupiah because of the oil price crisis.

Klöckner could prove weak link in 'Ruhr group' steel chain

BY JAMES BUCHAN IN BONN

EFFORTS to restructure the tottering West German steel industry have run into serious difficulties with growing worries that Klöckner-Werke, the fourth largest concern and the outsider of the group, could prove the weak link that causes the whole chain to snap.

"Since Carnival Friday (February 11) a banker specialising in the steel industry said this week, 'every day has threatened Klöckner with Vergleich'."

This means composition proceedings to allow protection from creditors. While Bonn is not so pessimistic, the threat is potent.

It would be the greatest corporate failure after AEG, would seriously affect the re-election chances of Chancellor Helmut Kohl's conservative-liberal coalition, and would derail a plan to restructure the industry, widely regarded as a last chance.

This plan, suggested by three independent experts or "moderators" in January, envisages merging Klöckner with Hoesch in Dortmund and the state-owned Salzgitter to form a "Ruhr group" competing with a merger of Thyssen and Krupp Stahl, known as the "Rhine

group," on which talks are well advanced.

On February 3 Klöckner announced that its bank creditors, including the house bank, Deutsche Bank, had agreed to maintain credit lines at the "current level."

The announcement said nothing about new liquidity needs although every month has seen demand for steel products falling and the industry as a whole faces losses of DM 3bn (\$1.25bn) this year.

Bankers say Klöckner-Werke has asked Bonn for up to DM 400m to allow it to take part in the restructuring plan, and Herr Joerg Henle,

supervisory board chairman of Klöckner-Werke and partner of Klöckner and Co., which owns 10 per cent of the Duisburg concern and does its marketing, has petitioned Chancellor Kohl on its behalf.

Further, the February 3 announcement said the banks were "confident" for Klöckner-Werke's future but based this on the speedy consummation of the moderators' plan.

The IG Metall union opposes the plan, and the Hoesch workforce demonstrated against the threat to jobs in Dortmund on Saturday.

The regional governments where

Klöckner-Werke has plants have objected to its demand that they finance half the restructuring for the overall restructuring estimated by the moderators at DM 2bn to DM 3bn.

Above all, Hoesch, which would be the Ruhr group's administrative centre has indicated that it is extremely dubious about negotiating with "the outsider" in its present financial state and is asking Bonn to do the necessary "spring cleaning" at Klöckner.

This aid should also permit it to write down its relatively new steel operation in Bremen, which has

never achieved better than miserable capacity use, and which Hoesch and Salzgitter consider grossly overvalued for merger purposes.

However, the Economics Ministry, at least until the election a bastion of the Free Democrat Party's liberal economic policies, has dug in its heels.

Count Otto Lambsdorff, the FDP minister, had to swallow his principles to rescue the industry in the Saarland last year because of the region's heavy dependence on the Arbed Saarstahl concern.

Continued on Page 16

Oil ministers seek backing for plan to avert price collapse

BY ROGER MATTHEWS AND CARLA RAPOPORT

OIL MINISTERS from the Organisation of Petroleum Exporting Countries (Opec) met in Saudi Arabia yesterday in an attempt to win majority support for a compromise plan which might stave off the threat of a collapse in world oil prices.

Sheikh Ahmed Zaki Yamani, Saudi Oil Minister, is understood to have warned that if a compromise was not reached his country would have no option but to protect its market share. He was quoted as saying: "My country will take no more after today and will adopt the measures needed to protect its wealth."

He was initially addressing colleagues from Kuwait, the United Arab Emirates and Qatar. But oil ministers from Oman and Bahrain, the other two members of the Gulf Co-operation Council, were understood to be in Riyadh. Representatives from Iraq and Libya may already have taken part in the talks.

Pressure for a swift decision intensified as spot market prices for North Sea crude oil fell to a four-year low in very sparse trading. The price for North Sea Forties crude oil fell nearly \$1 yesterday to land at a mid-point of \$27.25 compared with Monday's close of \$28.20.

The spot prices are now about 10 per cent lower than the British National Oil Corporation's (BNOC) proposed contract price of \$30.50. The new price has not yet been accepted by BNOC's major customers who are hoping for further cuts.

Traders and oil analysts say the spot market was pulled down by Nigeria's decision to cut its prices by \$3.50 to \$30. The lower spot prices now virtually rule out the possibility of a defence of a \$30 barrel by Gulf states, they say.

The Gulf oil states are urging agreement on a cut in the Opec reference price from \$34 to \$30 or \$29. If this wins majority Opec support, they favour a last-ditch appeal to Nigeria to reduce its announced price cut by \$1.50, thereby putting the price of Bonny Light at \$31.50. No attempt will be made to contact Iran, which is considered to be beyond persuasion.

If Nigeria fails to conform to the majority Opec view, then Saudi Arabia and its Gulf allies are believed to have prepared a sharper price cut. They will make this clear to Lagos.

Venezuela is thought to have approved the Gulf plan and Dr Humberto Calderon Berti, its Oil Minister, was urged yesterday to fly to

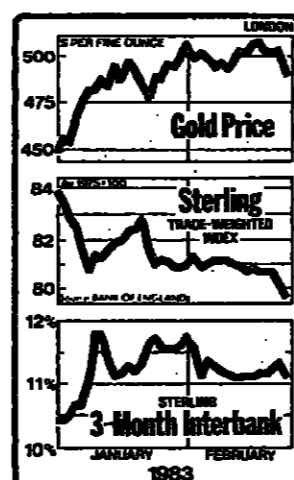
Mexico in an attempt to persuade the Government to delay the price cuts it said would be announced by Friday. The smaller Opec producers have also supported the Gulf plan but pressed the need for a swift decision.

"Now that the market has a whiff of something lower, the Gulf states are going to find it difficult to hold up the price at \$30 or higher," Mr David Gray, an oil analyst for James Capel, the London Stockbrokers, said. "Last week they might have managed it, but this week it looks too late. It is not an impressive show."

Michael Holman writes: Lagos announced increased profit margins for companies operating in Nigeria. The move, which raises the companies' profit share per barrel they produce for themselves from \$1.60 to \$2, and allows deductions for operating costs to rise from \$1.60 to \$2 a barrel, provides the oil majors with a de facto price cut.

The impact on the price of Nigerian oil is limited but important. An industry official said last night: "It gives the producing companies an additional incentive to move their crude oil."

Why prices must fall more, Page 15; Lex, Page 16; Commodities, Page 29



Sterling drifts lower

By Jeremy Stone in London

AMID FRESH nervousness about the outlook for crude oil prices, the pound yesterday drifted to its lowest effective exchange rate since June 1978, closing in London at 79.7 on the Bank of England's trade-weighted index (1975 = 100). Its close against the dollar was \$1.5285, down 1.35 cents on the day. The pound closed in New York at \$1.5162.

The anxious mood also pushed up interbank interest rates in London, and caused falls on the gilt-edged market of more than a point at the longer maturities.

At the same time, covering of speculative positions in New York and Chicago was apparently responsible for a sharp fall in the price of gold, and for a sudden spurt in U.S. dollar exchange rates against continental European currencies.

The Bank of England, which has been preventing very short Continued on Page 16

International markets, Section III

EEC accepts Japan plan for videos

BY JOHN WYLES IN BRUSSELS

EEC TRADE Ministers yesterday gave a grudging welcome to Japan's undertaking to "moderate" exports to the Community of video cassette recorders and nine other products.

They want Tokyo to open up its internal market much more to European manufacturers and they stressed that the Community would press ahead with its complaint under the General Agreement on Tariffs and Trade (GATT) in a bid to force Japan to do so.

While broadly accepting the trade restraint deal negotiated in Tokyo 10 days ago by European Commission vice-presidents Wilhelm Haferkamp and Etienne Davignon, Ministers were anxious to stress that the EEC-Japan trade problem was still very serious.

All member-states are determined to reduce the Community's \$10bn trade deficit with Japan and the Tokyo agreement is, in the words of Britain's Trade Secretary, Lord Cockfield "a first step along the road we need to travel."

The controversial arrangement to put a 4.35m ceiling this year on imports of Japanese VCRs drew very little criticism. Ministers accepted that further details on the application of the arrangement needed to be worked out between the Commission and the Japanese.

No one voiced any real concern about the impact of the agreement to raise the prices of Japanese VCRs by establishing a "floor price" in line with prices charged by the EEC to VCR manufacturers, Grundig and Philips.

Lord Cockfield said afterwards that it was impossible to predict

how much more the consumer would have to pay. He implied that prices would have risen anyway because the anti-dumping suits filed by Grundig and Philips against Japanese producers would have resulted in anti-dumping duties on imported VCRs.

Japan is looking for a withdrawal of these complaints in response to its undertakings as well as a decision by France to lift its restrictions requiring all VCR imports to pass through the customs post at Poitiers.

M. Michel Jobert, the French Trade Minister, boasted yesterday that the Poitiers strategy was largely responsible for securing the Japanese concessions. France is expected to lift this restriction gradually but M. Jobert warned yesterday that if Japan does not keep to its agreement to limit exports or if France's deficit with Japan continues to grow, "then other French towns and other products will be heard of."

In Paris last night, the External Trade Ministry said it was sticking for the moment to its regulations requiring customs clearance through Poitiers for Japanese VCRs.

A Ministry spokesman denied that there was any link between yesterday's meeting of Trade Ministers in Brussels and a decision on the future of the Poitiers controls. He suggested there were other ways that Paris could acknowledge Japan's gesture over limiting VCR exports.

Ambiguities admitted, Page 7; Floppy disc warfare, Page 16

CU hit by losses in U.S.

By Eric Short in London

COMMERCIAL UNION, one of the UK's largest insurance groups, yesterday reported record underwriting losses for 1982 of £271.5m on its worldwide general insurance operations.

This was more than double the previous year's losses and was the group's worst year since 1975.

Mr Cecil Harris, CU's chief general manager, said there were severe problems in the U.S., where underwriting losses soared to £198m, and to a lesser extent in the U.K.

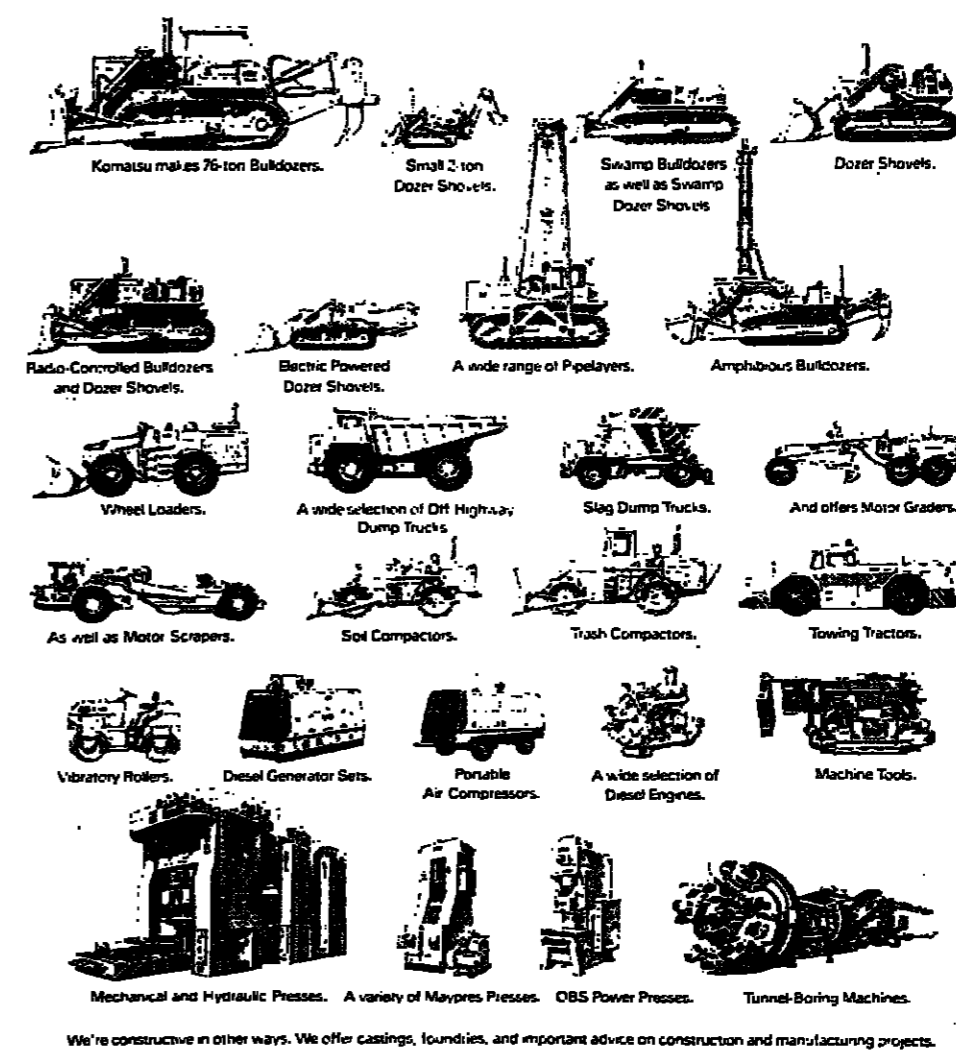
But he said he was not dissatisfied with the overall result. The year started with abnormally severe winter weather on both sides of the Atlantic, which cost the group £21m in abnormal weather claims, he said.

In the final quarter the group decided to inject £20m into strengthening the workers' compensation reserves and liability classes in the U.S.

Allowing for these two items, the pre-tax figures would have been much less than the previous year, a result that Mr Harris considers acceptable given the continued deterioration in trading conditions in world insurance markets. The group was expressing its confidence in the future by declaring an unchanged dividend.

He expected improved results this year from higher rates and staff cuts. The CU has already announced its UK reorganisation plans involving a loss of 1,200 jobs. Details, Page 20; Lex, Page 16

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EUROPEAN NEWS

Poland may be easing martial law sentences

By Christopher Bobinski in Warsaw

POLAND'S Supreme Court is to review one of the severest prison sentences handed down under the country's martial law. The case will provide an important pointer to official policy on political prisoners in Poland.

The court has called publicly for an amnesty for the more than 1,000 prisoners sentenced for political martial law offences.

The military chamber of the Supreme Court is to review the case of Mrs Ewa Kubaśiewicz, a librarian jailed for 10 years for helping to organise a short-lived protest strike against martial law at the Gdansk Naval Academy.

Eight others in the case under review include Mr Jerzy Kowalczyk, from the naval academy, who was also the chairman of the Gdansk Catholic Intellectuals Club. He was given nine years.

Recent sentences suggest that the authorities are moderating prison terms. Mr Zbigniew Romaszewski, a prominent underground organiser, for example, received four and a half years in prison for his role in setting up radio Solidarity. However, he does face further charges arising from his activities in the two months leading up to martial law.

At the same time, the authorities are preparing the case against the five members of the KOR dissident group and seven national leaders of Solidarity. Both trials seem certain to evoke a storm of protest and could be postponed until after the Pope's visit.

Charges have been dropped, however, against 40 members—many quite prominent and active—in the KPN nationalist movement, yesterday changed plans to make his first visit to Poland's industrial heartland of Silesia since his union was closed down under martial law. He denied suggestions he was under pressure not to make the trip.

Reuter adds: Mr Lech Walesa, leader of the banned Solidarity movement, yesterday changed plans to make his first visit to Poland's industrial heartland of Silesia since his union was closed down under martial law. He denied suggestions he was under pressure not to make the trip.

Harry Salter explains why a lingering row in the European Community is coming to a head
EEC shuffles blindfold towards UK budget crisis

IT IS a tragedy that the European Community is once again shuffling blindfold towards a major crisis over the problem of the UK contribution to the community budget.

The European Parliament approved last week a supplementary budget which will pay the UK for a series of regional and energy projects worth about £500m as compensation for the fact that it was a net contributor to the tune of £1.2bn in 1982. The compensation was not higher than this because of the "overpayments" of compensation for 1980 and 1981.

Taking the three years together, the UK got back about two-thirds of its net contributions. It was, however, clear that this was the last time Parliament would agree to ad hoc compensation of this sort and the French said plainly when the supplementary budget was accepted by the European Council that they would block similar payments in future years.

Everyone, including even the Commission, says that the right solution to this problem is to "restructure the budget"—so that the UK is no longer too large a net contributor.

This means introducing new general policies from which the UK, among others, will benefit, instead of expenditure designed specifically for the UK. But last week, neither the Commission's

new Green Paper on financing the budget nor President Giscard d'Estaing's annual statement of policy to the European Parliament did much to give hope that a solution is in sight.

The stage now seems to be set for a crisis later this year—with Mrs Margaret Thatcher, the British Prime Minister, and Mr Geoffrey Howe, the Chancellor of the Exchequer, insisting on a long-term solution and perhaps illegally withholding the UK contributions if one is not forthcoming, with at least the French, in the Council, refusing to consider a continuation of ad hoc payments, and with the European Parliament probably "sacking" the Commission for failure to deliver the "budget restructuring" which they regard as the way out of the problem.

All this is tragic for two reasons. First, the problem of the UK net contribution is not really big enough for the UK or its partners, or the European Parliament, to put at risk Britain's continued membership of the Community.

The compensation the UK will get this year is only about £10 per head of the UK population; the cost of giving it is only about 4 per cent of the Community budget. It is true that the sums are not insignificant, but surely they weigh very little—on either side in

the dispute—when balanced against the dangers involved in pushing this issue to a head-on conflict.

The second reason that it is a tragic situation is that the preferred solution of restructuring the Community budget is probably unattainable. Most of the protagonists know this, but they stubbornly insist on continuing down this road.

What are the facts? In 1982 the UK contributed about 24 per cent to the financing of the Community budget and benefited from about 13 per cent of the Community expenditure which can be allocated between member-states. Since from a total budget of £13bn about £11bn can be allocated to member-states, the UK net contribution was about £1.2bn.

If there is no change, this scale of net contribution will continue. It can be made smaller either by reducing the UK share of financing or by increasing the UK share of expenditure—or both.

Last week's Green Paper contained several suggestions for additional methods of financing the Community budget which would have the broad general effect of making the shares of member-states in any additional finance roughly equal to their shares of Community gross domestic product. But with

Greece already in the Community and Spain and Portugal waiting in the wings, the UK will no longer be all that much of a poor relation, and the introduction of one of these new methods is unlikely to reduce the UK share of contributions significantly.

There is another suggestion for new revenue "related to agricultural indicators"—which presumably means a sort of tax on agricultural production. This would certainly help the UK if it could be made to finance about one-third of the budget, but at this sort of level it stands very little chance of being accepted by most member states. The one really significant benefit to the UK—a levy on imported oil—has been discarded, presumably because of likely objections by other member states and the international repercussions which it would entail.

On the very best of assumptions about changes in the method of financing, and ignoring the increase in the UK's percentage share which will certainly result from the entry of Spain and Portugal to the EEC, one cannot envisage the UK's overall contribution falling below 22 per cent—with a marginal rate (a re-vamped VAT perhaps combined with a modest agricultural production levy) of 20 per cent. If the

UK's share of allocated expenditure remains at 13 per cent the net contribution would then become £1bn.

The main remedy, therefore, has to be found—as it has been for the past three years—on the expenditure side of the Community budget. But how?

The UK's present share of allocated expenditure is made up of 10 per cent of agricultural expenditure (85 per cent of the budget) and 20 per cent of the rest—an overall 13 per cent.

No-one pretends that agricultural expenditure will actually decrease significantly in volume. Therefore other expenditure (regional fund, social fund, energy, transport, etc) has to rise. But if this is done by the application of general policies and not by specific measures for the UK, then other eligible member states also have to benefit.

The UK at present gets about 20 per cent of non-agricultural expenditure, including 24 per cent from the regional fund. When Spain and Portugal join the Community the UK share of the regional fund will drop to well below 20 per cent.

Even ignoring the impact of Spain and Portugal, it seems to be impossible for the UK to get more than 25 per cent of non-agricultural expenditure by the application of general policies.

Since it will contribute at the marginal rate at least 20 per cent to the financing of this extra expenditure, its net gain is only five units for every 100 units of expenditure.

To "compensate" for two-thirds of the deficit (say for £600m) there would have to be total new expenditure from the Community budget of £1.2bn—almost doubling the present size.

Although such an increase is desirable, for quite other reasons than the UK problem, it is highly unlikely to occur, in real terms, in this decade. For one thing it would be wholly unacceptable to West Germany, which already has a problem as the other major net contributor. It would also be unacceptable to France, Denmark and the Benelux countries, who would themselves become net contributors.

So the "restructuring" idea is a non-runner. It would be best if everyone were to recognise this and to face the fact before it is too late. The UK problem must either be forgotten or there must be a continuation of the specific expenditure designed to help only the UK and perhaps West Germany—the way the problem has been solved up to now.

Harry Salter is former director for budgetary financing in the EEC Commission.

Quails on horizon for Soviet spacemen

MOSCOW—Quail dishes may be in the offing for future cosmonauts if scientists are successful in trying to hatch eggs from the game birds in outer space.

The Soviet space programme now concentrates on flights lasting more than six months and scientists here are evidently determined to provide cosmonauts with a more varied cuisine during their long sojourns in space.

Tass, the official Soviet news agency, said yesterday that Soviet and Czechoslovak scientists had designed a special container for quail eggs that will keep them motionless and at a constant temperature during the space flight.

If the experiment proves a success, this will lay the beginning for the creation of mini quail farms in conditions of weightlessness to supply cosmonauts with food during lengthy flights," Tass said.

Details of the experiment and when it would be launched were not provided. Nor did Tass explain how spacemen would manage to kill and clean the quails and then dispose of their remains while circling the globe.

The quail has been chosen because its eggs hatch in 15-17 days while the common hen's eggs needs 21 days' incubation.

A single quail, Tass said, is capable of laying 250 to 300 eggs a year.

Last May, Tass reported that Parisian chefs had created a special menu for the joint Soviet-French space flight last summer. The diet of French cosmonaut Jean-Loup Chrétien would consist of pâté, cran sauce, cheese, ragout of hare and spiny lobster, the agency said. In all, the diet was to comprise three menus of three courses each.

The French Government, however, later explained, without giving any reason, that the menus had been cut to one course each.

AP
Lorries stranded
A four-day-old strike by Italian customs officials had stranded about 1,400 lorries on both sides of the two main tunnels between France and Italy, AP reports from Chamoni.

Swiss unveil measures to support hard-hit regions

By John Wicks in Zurich

THE Swiss Government has proposed new measures aimed at supporting economically weak regions of the country and encouraging innovative ventures by small business.

The proposals follow the recent announcement of a SwFr 970m (£31.3m) economic revival and job-creation programme.

The regional development measures are intended particularly to help areas affected by the current difficulties of the watch industry, as well as the mountain cantons. The Federal Council believes that the economies of these regions are likely to remain troubled for several years.

The proposals foresee a broadening of existing facilities for granting government guarantees and contributions

to interest costs. At the same time, the Government would support the work of so-called "innovation advisory units" in individual cantons or communities.

An existing fund to aid the mountain cantons would be gradually fed with an additional SwFr 300m (£97m) between 1986 and 1994.

Apart from this, the Federal Council wants to see an innovation guarantee fund set up. This would be financed initially by a non-repayable government contribution of SwFr 100m and would support projects undertaken by companies with fewer than 500 employees. Guarantees would cover up to 85 per cent of project costs.

This is intended to encourage the introduction of new forms of micro-technology

Greek-Soviet co-operation agreement signed

By Victor Walker in Athens

GREECE AND the Soviet Union yesterday signed a 10-year agreement on co-operation in the economic, industrial, scientific and technological sectors that provides also for efforts to increase two-way trade.

It was signed by Dr Andreas Papandreu, the Greek Prime Minister, and Mr Nikolai Tikhonov, his Soviet counterpart, on the second day of a three-day official visit by the latter to Athens.

Dr Papandreu said yesterday that a new page was opening in relations between the two countries. He added that he had accepted an invitation to visit Moscow, and hoped to go soon.

The 10-year agreement provides for the construction in Greece of an alumina plant with an initial annual production capacity of 600,000 tons, which will use Greek bauxite as raw material, and of an

ancillary caustic soda unit. It is not known how much of the alumina will go to the Soviet Union or East European countries. This question stalled a similar proposal agreed four years ago.

The agreement provides also for a Soviet role in planning and constructing hydroelectric and thermoelectric power stations in Greece, the modernisation and electrification of the Greek rail network, and construction of a pipeline that will eventually enable Greece to buy Soviet natural gas.

There is to be similar co-operation in production of building materials, construction of sewage disposal units and hospitals in Greece, and the carrying out of industrial and other works in the Soviet Union.

In the agricultural sector, the Soviet Union will help to build irrigation systems, wheat silos, and agro-industrial complexes,

and units for processing agricultural waste into animal feedstuffs.

Technological co-operation will range from prospecting for minerals to research into alternative sources of power, including solar energy.

The agreement foresees possibilities of increasing trade in a wide variety of products, including Soviet machinery, crude oil and petroleum products and natural gas, and Greek alumina and aluminium products, cement, marble, agricultural products—such as olive oil, cotton, citrus fruits and canned juices—and a range of industrial consumer goods.

Mr Tikhonov today will meet President Constantine Karamanlis, visit Athens municipality, and the Hellenic shipyards near Athens, owned by Mr Stavros Niarchos, the shipping magnate. A joint communiqué is to be

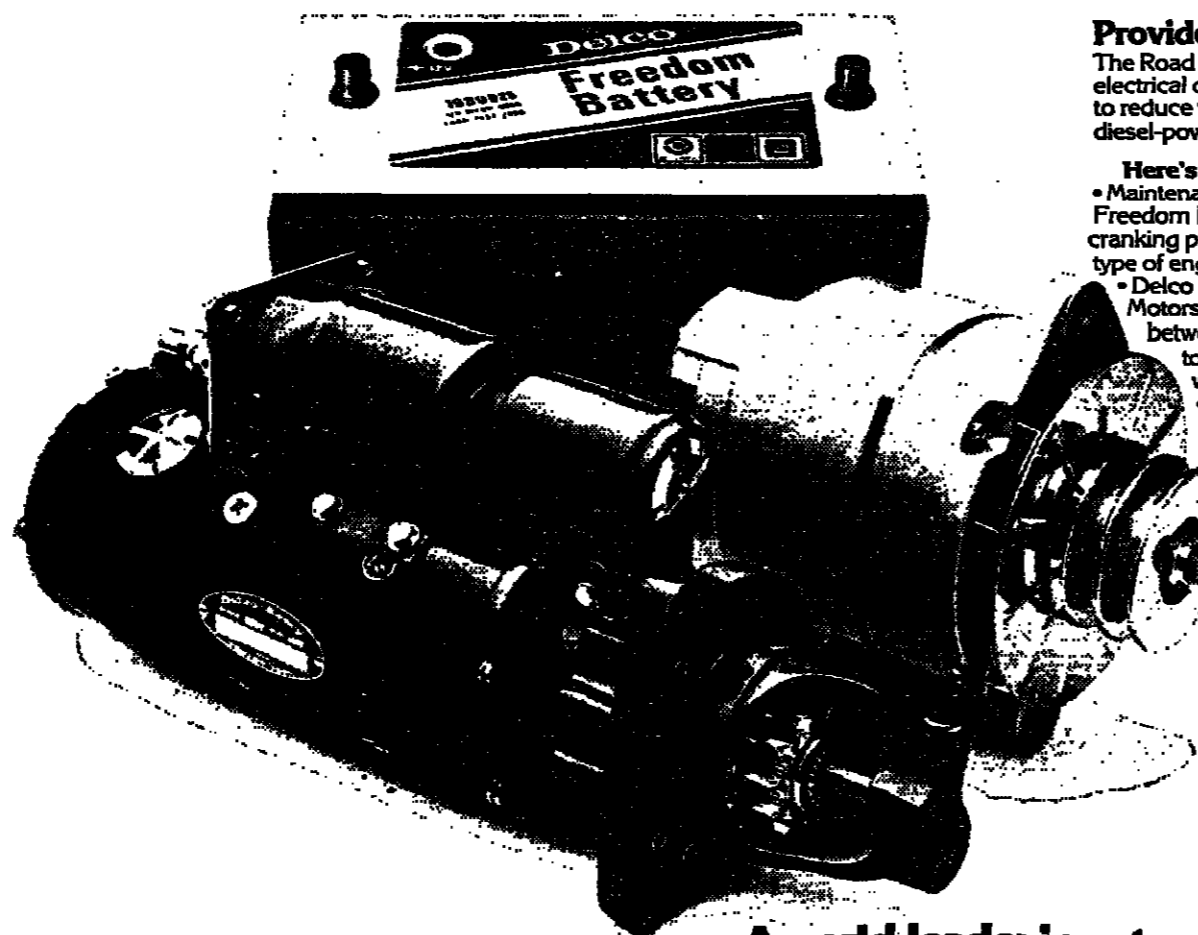


Mr Tikhonov... three-day visit to Athens

issued in Athens and Moscow after his return to the Soviet capital tomorrow.

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EUROPEAN NEWS

Berlin's DM 100m drain for sale

By Leslie Collett in Berlin

FOR RENT: In West Berlin, Europe's oldest urban elevated 145 kms of track with 77 stations. Some repairs needed. Contact East German Government.

WANTED: Urban railway. Contact West Berlin city government.

East Germany urgently wants to get rid of West Berlin's sprawling public transport system, the S-Bahn, which it has operated since 1945.

The S-Bahn has become a DM 100m (£27.2m) annual drain on the East German treasury at a time when East Germany has to pay some \$600m in interest on its debts to the West this year.

The S-Bahn in West Berlin was severed from its East Berlin half by the building of the Wall in 1961. Until then it was used by 400,000 West Berliners daily. Today, fewer than 10,000 West Berliners ride what remains of the railway system after East Germany cut the service radically in 1980.

When the Stadtbahn was inaugurated in 1882, the 15 km rail link across Berlin was Europe's first urban viaduct railway. A railway ring around Berlin was completed five years later.

In pre-war days a "bankers' express" left Wannsee station in the south of the city at 10.00 in the morning, arriving ten minutes later at busy Potsdamer Platz, 20 km away. A similar trip today by S-Bahn takes a good hour in a nearly deserted, rattling carriage which passes empty platforms and deserted stations.

Potsdamer Platz is in no-man's land between West and East Berlin.

East Germany's Transport Minister says West Berlin must begin negotiations soon with him on the S-Bahn as the East Germans are tired of financing it.

East Germany, however, can only lease the S-Bahn; it cannot sell it to West Berlin. The East German Reichsbahn was given the operating rights for the S-Bahn by the Allies in 1945, who kept ownership of the urban railway which they inherited from the defeated German Reich.

West Berlin planners hope to resurrect the S-Bahn piece by piece and integrate it with the existing underground and bus systems.

West Berlin's governing mayor, Herr Richard von Weizsäcker, noted yesterday that, although funds are extremely short, it must not be forgotten that the S-Bahn remains a "clasp for all of Berlin."

James Buchan on the campaign trail with W. Germany's Social Democrat leader Vogel abandons lofty air for down to earth approach

A CURIOUS synthesis is taking place between the two great rivals in the West German election campaign.

Chancellor Helmut Kohl (52) is at heart a sociable man, with an easy manner towards voters. Yet since taking power in October he has often sought to project himself as a lonely statesman, displaying (to use a favourite phrase) "the style and dignity" of his high office.

In contrast, Herr Hans Jochen Vogel (57), the Social Democrat candidate, is much cooler by nature and is still marked by the hauteur of the eternal prize pupil. His careful lawyer's formulations often conceal his opinion but not his boundless self-confidence. Yet, in the course of his recent political career he has learnt to slap backs like the best of them.

As politicians go, both men are fairly convincing in their adopted roles—or rather, equally unconvincing—whether it be Herr Kohl bent double over Mrs Nancy Reagan's hand in Washington or Herr Vogel sporting a funny nose at a Munich carnival.

A long train journey across West Germany on Saturday showed the different sides of

Herr Vogel's nature. First stop was Mainz, a Christian Democrat stronghold, where he was due to address a rally of local Social Democrat town and county councillors.

Instead of giving a worthy prepared speech on the problems facing West German towns, he launched into a passionate call for U.S. flexibility in negotiations on intermediate-range missiles. This took so long that he had little time even to condemn the Kohl Government's "reactionary" social policies. Let alone inner-city problems. He was vigorously applauded.

Later, as the special train chugged up the left bank of the Rhine, he explained why he had abandoned the prepared text. "It was boring," he said, and the faithful needed a bit of shaking up.

His carriage, with its walnut panelling and silvered windows, is the sole survivor of the five in service with the Reichsbahn for the Nazi leaders—Goering or Ribbentrop, the guard was not quite sure. Herr Kohl would certainly have referred to his elegant but gruesome vehicle. Herr Vogel took it all in his stride.

Displaying as much charm as confidence, he explained why he "would not exclude" becoming Chancellor in March with only two parliamentary parties in the Bundestag. The Free Democrats would not survive, he said, and as for the Greens, they were on the way down not least because, to young voters, he was not a candidate.

Hardened by "harsh decisions" in the past like Helmut Schmidt but had come from outside the "artificial world of Bonn."

He even allowed himself a little cynicism in discussing the campaign by Herr Kohl's



POSTER POWER: Herr Vogel (left) and Chancellor Kohl stare down from a hoarding at a pensive Frankfurt voter

UNITED STATES forces could withdraw from West Germany if it refused to deploy new U.S. nuclear missiles, Herr Franz-Josef Strauss, leader of the right-wing Christian Social Union, said yesterday. Reuter reports from Munich. He told Quick magazine that many U.S. politicians had told him that a failure by West Germany to station medium-range Pershing-2 missiles, if disarmament negotiations fail in Geneva, would produce "an incurable rift" in Nato.

Any Government which denied its ally necessary armaments would destroy the alliance, and the result would be withdrawal of the U.S. troops, he said.

Christian Democrats to portray themselves as the party that had launched and would safeguard an economic upturn. "We did it in the 1980 federal elections, too, and it paid off," he said, although the upturn has yet to appear fully.

But three hours later, in Muenster on the edge of West Germany's northern flatlands, Herr Vogel had a packed hall on its feet with his bitter denunciations of the Government's lifting of some rent controls

and restriction of student grants. If his chief method of humour, an elaborate irony, was deadened by the surroundings, his audience certainly left the hall "motivated" (a favourite Vogel phrase).

"They are running," he said of his supporters. "It is just like 1972," when the Social Democrats came from behind to win.

In Roman Catholic Cologne on Monday evening, Herr Kohl began stoddily. Greeted with

spotlights and deafening applause as "our Chancellor," he took a while to put aside his Bonn mantle and do what he does best, which is to restate traditional values in a traditional way.

Hissing from a group of beleaguered hecklers in a corner of the immense Sporthalle gave him an opportunity to remind them that they could not act so "in the other part of our Fatherland."

He roved over post-war history and the alliance with the U.S., called on people to roll up their sleeves, approved motherhood, complained that many young people were milkshakes. By the time he came to the bit about "more authority for parents and in schools," his audience was stamping its feet with pleasure.

"Vote for the upturn," said a huge sign behind the podium. Altogether, it sounds very much like a winning formula.

Cheysson paints sobering picture of Andropov

BY DAVID HOUSEGO IN PARIS

A SOBERING picture of Mr Yuri Andropov, the Soviet leader, has emerged from descriptions by M Claude Cheysson, the French Foreign Minister, who met him at the Kremlin on Monday.

The meeting was the climax to M Cheysson's four-day visit to the Soviet Union—the first by a French Foreign Minister since the Socialists came to power. From M Cheysson's account, as reported in the French Press yesterday, the visit served mainly to highlight the wide gap between the French and Soviet position over the central issue of the nuclear balance.

M Cheysson found Mr Andropov to be a man who is "severe, exact, who shows no emotion and sticks to the facts and to a mathematician's reasoning." He opened the discussion with a 40-minute monologue setting out the Soviet position over the deployment of intermediate range missiles.

M Cheysson said the statement paid little regard to French views, but was directed primarily towards the whole of Nato and particularly the U.S. M Cheysson, who called the Soviet leader, "non-romantic," said Mr Andropov reminded him of M Maurice Couve de Murville, a former Foreign Minister under de Gaulle and later Prime Minister, who is known both for his dry, quick intellect and his courtesy.

According to M Cheysson, the Russians showed no interest in the French argument that French nuclear weapons should not be counted in an agreement between the Soviet Union and the U.S.

"Our wish to consider our nuclear forces as independent did not interest him," said M Cheysson. "He wanted to take

MADRID — The son of Mr Yuri Andropov said today his father was a hard working man with little time for art and other pursuits attributed to him in the Western Press. In a break from his work at the Madrid European Security Review Conference, Mr Igor Andropov also said his father spoke average English and could understand almost everything he read. "As far back as I remember, he was a hard worker," Mr Andropov said in his first extensive contact with the Western Press since his father took over the Soviet leadership last November.

into account our forces but not our arguments."

M Cheysson obviously felt he had scored a point by telling Mr Andropov that by including French forces in any overall balance he was in effect pushing France towards rejoining Nato's military wing—a goal the Russians would not espouse.

But the whole tenor of the conversation was obviously a far cry from the privileged relationship that France had under former President Giscard d'Estaing as the Soviet Union's first point of contact in Western Europe. This ended with the much tougher stance taken by the Socialists over Poland and Afghanistan.

Though a visit by President Mitterrand to the Soviet Union has not been ruled out, it has clearly been put on ice. M Cheysson did not despair of convincing Moscow that Nato was serious about the deployment of intermediate range weapons at the end of the year if the Geneva disarmament talks failed.

Government intervenes in Swedish pay deadlock

BY OUR STOCKHOLM CORRESPONDENT

SWEDEN'S Social Democratic Government is trying to mediate in the deadlocked national wage negotiations. The lack of agreement is putting its economic recovery programme at risk.

The decision to intervene came after a threatened strike in some key industrial areas by the "Landorganisation" (LO), the federation representing 20 blue-collar unions, and a counter threat of a lock-out by industries which are members

of SAF, the employers' federation.

Mr Olof Palme, the Prime Minister, had hoped for an early and low wage settlement in this year's round of centralised talks to help Swedish exporters build on the competitive advantages gained by the 16 per cent devaluation of the Krona.

Instead, the LO and the SAF make a 30-year tradition of centralised wage discussions and have been pursuing talks at industry-level.

The break came when the unions rejected SAF's offer to extend existing contracts rather than agree new ones. This formula would have increased pay by an average of 6.5 per cent this year.

The offer reflected the employers' inability to reach agreement among themselves on a common negotiating stand. Some members, such as Volvo, the vehicle and industrial group, had publicly criticised the centralised national pay negotiations for not allowing wide enough wage differentials between skilled and unskilled workers.

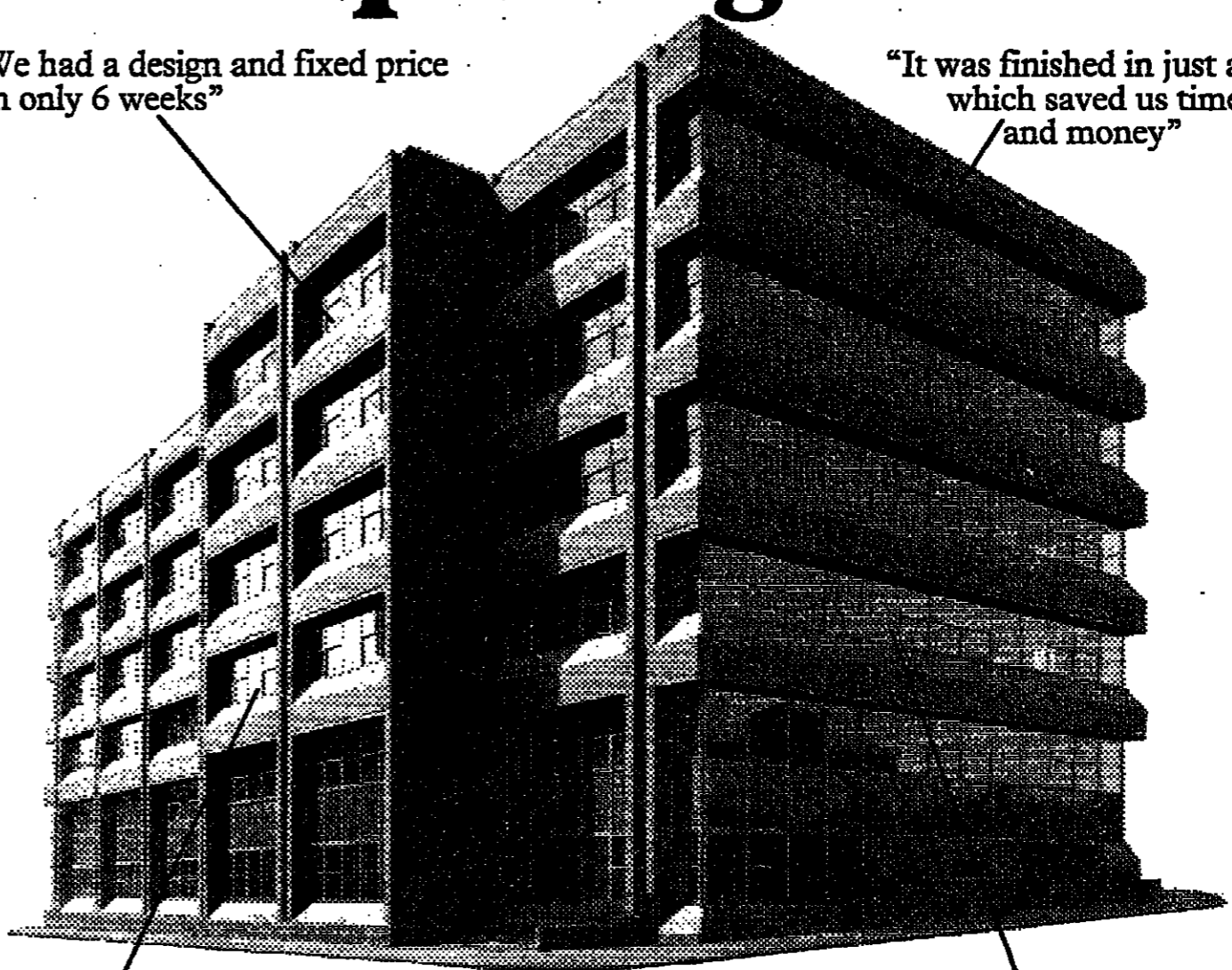
The LO, which had supported the Government's call for wage restraint with a demand for an extra 2.1 per cent, responded by cancelling existing pay contracts and threatening to strike in key industries.

Such a strike would have had an indirect impact on companies employing skilled workers belonging to the powerful metal workers union, which has been increasingly at odds with the LO leadership. The metal workers want separate wage negotiations with their counterpart employers' association.

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AMERICAN NEWS

Brazil attempts to offset effects of devaluation

By Andrew Whitley in Rio de Janeiro

THE BRAZILIAN Government has announced a package of measures to relieve the impact on industry of last week's 23 per cent devaluation of the cruzeiro. The package makes few concessions to those companies, public or private, which borrowed heavily abroad in recent years.

At the same time Sr Ernane Galvao, the Finance Minister, said the Government did not intend to re-introduce price controls on most goods as had been widely feared.

The main points of the package, agreed after a series of ministerial meetings over the last few days, are:

● Import duties on raw materials have been cut from 25 per cent to 15 per cent.

● Wheat and oil, the two largest single import items, which are already free of duties, will therefore suffer the full impact of the devaluation.

● Export taxes on a range of primary products have been set at 20 per cent, to help maintain their world market price. The list of goods involved has not

been released.

● Private Brazilian companies are to benefit from three new capital support programmes which will be organised through the BNDES, the state development bank. Details are to be worked out.

● Holders of Government Treasury Bills adjusted in line with the exchange rate are to be taxed at the rate of 45 per cent on the differential between the adjusted exchange rate and Brazil's inflation - accounting system of "monetary correction."

● The export credit premium of 11 per cent is to be maintained for at least the first half of the year. Brazil has had a long battle with the U.S. over retention of the premium.

The refusal of the government to give any protection to companies with debts in dollars, apart from those who took out new loans after last October when the country's external crisis broke, will be disappointing to an already angry set of Brazilian industrialists.

Rise in lending planned by World Bank

By David Tonge

THE WORLD BANK yesterday put the finishing touches to a package of measures designed to combat a slump in its lending programmes to the Third World.

One key element of the package, which is due to be announced today, is an increase in the sums available for loans designed to help countries adjust their economies to deal with balance of payments problems.

Most executive directors of the bank are keen to see such "structural adjustment lending" account for more than 10 per cent of bank lending, the present limit. They also wish to ease restrictions limiting such loans to 30 per cent of World Bank lending to any country.

The other key feature of the package is an easier approach to existing projects. The bank plans to finance a larger share of local costs involved in projects and make additional loans to ensure the completion of work already in hand.

Caribbean call for emergency IMF meeting

CAYMAN ISLANDS - Caribbean leaders have called for an "emergency meeting" of the International Monetary Fund (IMF) to help third world nations struggling against the international recession.

The IMF board of governors is scheduled to meet in September. But the Caribbean leaders, meeting at a summit conference here, said developing nations need to deal directly with the IMF now because of serious balance-of-payments problems that may cause them to default on loans.

"The crisis cannot wait until the next IMF meeting," Mr Edward Seaga, the Jamaican Prime Minister, told a news conference. "If we wait, there may be more defaults, causing panic in the system that would eliminate the little gleams of light," Mr Seaga said.

The two-day summit of 15 Caribbean leaders, was aimed primarily at strengthening Caribbean economic ties to the island nations. It was attended by the Canadian Prime Minister, Mr Pierre Trudeau.

The leaders expressed concern about declining trade with Canada, and also about Canadian participation in President Reagan's Caribbean Basin Initiative for regional development. Mr Reagan's plan excludes help to Grenada and other left-wing nations in the area. However, Mr Trudeau stressed that Canada is committed to doubling aid to \$900m a year to the region. AP-DJ

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Jimmy Burns in Buenos Aires explains how a political crisis was narrowly averted

Bignone defuses a constitutional time-bomb

A HIGH-RANKING official at the Argentine Ministry of the Interior, quite straight-faced, described last week's political crisis as "totally routine."

"Relationships within the Government and between the different areas of Government are perfectly fluid. It's all an invention of the Press," he said.

The official explanations cynically understated the political drama which is reliably understood to have been played out behind the scenes.

Last Monday night, the junta of army, navy, and air force chiefs, after a six-hour meeting with President Reynaldo Bignone, informed the country that it had analysed and agreed "a broad package of new policy guidelines for implementation by the military government."

The statement, with the key word "agreed," was the only public hint of what some military officials were prepared to admit only privately—that the Government had defused, at least in the short-term, a political time bomb which had threatened the resignation of Gen Bignone, the overthrow of the junta, and the prospect of an indefinite postponement of the pledged return to civilian rule by 1984.

The meeting was the final stage of a rear-guard action to prevent a coup orchestrated by junior and middle rank officers, counselling the understanding of

at least one general and supported by elements within the air force and navy.

The guidelines they agreed upon have not been publicly revealed, but the Government is believed to have settled for a prompt conclusion to the continuing Falklands investigation. The full findings, believed to contain a strong criticism of the former junta and Sr Nicor Costa Mendez, the Foreign Minister, could be published in April, Sr Jorge Wehbe, the Economy Minister, will be allowed to stay on as long as he shows early success in his drive against inflation, despite pressure from some quarters to sack him.

A more important reason is that the military wants to give its internal differences and agree not to intrude too deeply into three issues in particular: human rights, military promotions, and defence (budget and planning).

On corruption, the junta has officially agreed to activate military courts and to give its backing to civilian judges currently investigating allegations of corruption.

This week, three former high ranking officials were granted bail pending charges of misuse of public office. The fact that all three were civilians prompted suggestions that they would be used as the scapegoats for certain military ills.

Two days before the meeting, the pro-army newspaper La Razon published on its front page details of a document which strongly criticised the military leadership and which reveals some of the strains the junta is facing.

The statement was signed by a group of retired generals, but the fact that it was leaked to the press at all and that the signatories were not immediately arrested (the document had been handed to the junta on January 29) suggested that the Government may paradoxically have had a hand in it.

Earlier this month, Gen Cristino Nicolaides, the army chief, is believed to have informed President Bignone that young officers were growing dangerously restless and that it was time that the Government adopted some firm measures to show that it still held the initiative.

The officers are believed to have been provoked by a number of issues, including: ● The increasingly outspoken criticism voiced by politicians of the military's conduct in the Falklands war. Many young officers—some of whom fought competently and bravely—are

angered by the way the Government's inadequate investigation has left guilty generals untouched.

● The increasingly outspoken reports in the local media questioning the military's human rights record. About 2,000 young officers from the rank of second lieutenant to colonel are understood to have taken part in kidnapping, torture and summary executions of political suspects following the 1976 coup.

These officers now fear that their superiors will make them scapegoats for past excesses and deliver them into the hands of civilian courts. Their current hero is Gen Camps, the former Buenos Aires police chief. He is the only senior officer to have admitted publicly that most of the disappeared are probably dead because the killings were fully justified as part of the war against terrorism.

The increasingly numerous reports in the local media alleging financial corruption in the part of senior military officers as well as civilians working for the military government. None of the young officers has occupied a government post. They believe that at least some of the allegations may be true. At a time of severe economic problems when the young officers' take-home pay has been sharply reduced by inflation, the officers

recent bureaucrats who apparently use their uniform to rob the state.

Underlying these grievances is the more generalised concern that the armed forces have over their shattered image following the end of the Falklands war. Young officers, particularly those who fought most vehemently in the earlier anti-subversion war, do not relish the prospect of handing over power to the civilians from a position of military weakness.

In a series of meetings leading up to the agreement, a number of possible responses to these pressures were considered by the military rulers.

Brig Gen Augusto Hughes, the chief of the air force—many of whose young pilots were sacrificed during the war—argued strongly for a major clamp-down on the press. The sacking of Gen Bignone and Sr Wehbe was also considered.

Gen Bignone is understood to have argued strongly in his own defence as a symbol of moderation, without which the country would be plunged into chaos. In the end a compromise appears to have been reached.

But Gen Bignone and the junta chiefs know they are walking a tightrope. On the one side is the threat of a major revolt from within their own ranks. On the other, there is the possibility that not all politicians will agree to the conditions which are put to them.

WASHINGTON STATE POWER UTILITY NEARS DEFAULT

Why the U.S. bond market may go Whoops

By Richard Lambert in New York

ONE OF THE biggest borrowers on the U.S. municipal bond market is within a matter of weeks of financial disaster. Unless there is some last minute compromise, it appears increasingly likely that the Washington Public Power Supply System will default on \$210m of loans.

In scale and complexity, the affair is without parallel in the U.S. securities markets.

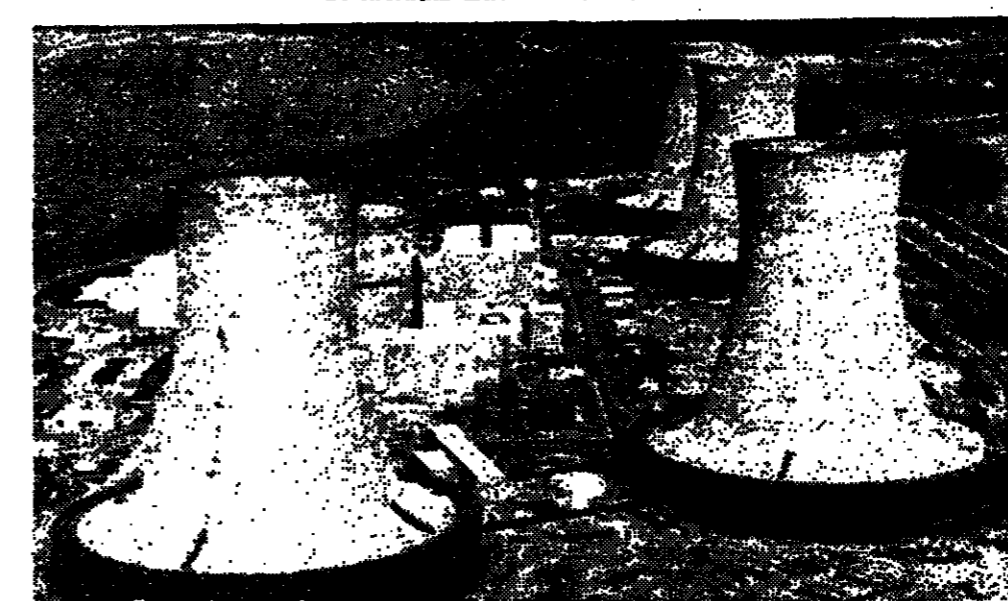
The most shocking part of the story is that the agency was borrowed to finance two nuclear power projects in the Pacific North West which are unlikely ever to be completed. They were both cancelled in the early stages of construction just over a year ago, when it became clear that it would be impossible to raise the extra \$100m (\$8.5bn) or so which the two plants would need to be completed. Full repayment of capital and interest on the bonds already issued for these two defunct schemes would amount to some \$7bn over 30 years.

But the Supply System, which as a result of all its horrendous problems is universally known as "Whoops," is now scrambling to meet debts amounting to \$194m which are due on the two plants by July. Apart from around \$90m in the bank, its only asset is an undertaking by the utilities which backed the projects in the first place that they would pay the financing costs whether or not the plants ever produced power. These undertakings are now being contested in a number of court actions, both the timing and outcome of which are uncertain.

With these cases in the balance, Whoops officials admitted last week that there could be a default by April.

Whoops was created in 1957 by a group of utilities in the North West which wanted to obtain economies of scale in power generation. It was set up as a municipal corporation, and although it was given no taxing authority, it had one great—and eventually fatal—power: the ability to issue tax-exempt bonds.

Until the late 1960s, nearly all the power supply in the area had come from hydro-electricity—and since the price was cheap, the demand was



The near disaster at the Three Mile Island power plant (above) meant extra costs for its already burdened Washington counterparts

strong. But there was a limit to how much extra power could be produced from such resources and by the end of the decade an ambitious construction programme had been initiated in the region, including three nuclear plants for Whoops.

Each of these three schemes was separately financed, and the individual projects were guaranteed by the Bonneville Power Administration (BPA), a federal agency set up under the New Deal to market power from a series of Government operated dams along the Columbia River.

Although these were huge schemes, it seemed within a few years that they might prove inadequate. Whoops itself never made a loan forecast, but based on the projections of its supporting utilities, it began to put together plans for two more nuclear power plants. It was encouraged in this by the BPA, which in 1976 warned its utility customers that it would be unable to meet their extra power needs after June, 1983.

But there was to be one key difference about projects four and five. By the time they needed money, the Internal

Revenue Service had ruled that BPA-backed bonds could no longer qualify for tax exempt status. Rather than lose this attraction, the 88 utilities backing the two schemes decided to raise the money on the strength of their own guarantees.

Thereafter, it was downhill almost all the way. Whoops was bedevilled by inefficient management, inflation, high interest rates, and extra costs incurred as a result of the near disaster at Three Mile Island. It became increasingly clear that the region's power demands had been wildly overestimated.

Just under two years ago, Whoops finally faced reality. The five plants were going to cost \$23.8bn to complete, nearly \$8bn more than the previous estimate. Faced with the need to raise \$3bn in a year when its financial status was already crumbling, Whoops began to cut back.

The current position is that total borrowings amount to some \$8.4bn. Projects four and five have been cancelled, and construction on project one—

which is around three fifths complete—has been delayed for five years. Project two is due to be operating by early next year, and needs roughly another \$150m for completion. That money should not prove too great a problem, but there is much more uncertainty about project three, which needs over \$950m to be completed, and is likely to run out of funds

by around April. There are two problems about raising new bonds for this project. One is an initiative passed by Washington State voters which would require their specific approval for any bank loan. This initiative has been ruled unconstitutional, but the finding is still subject to appeal.

The other stems from the worries on Wall Street about projects four and five. If Whoops were to file for bankruptcy, for instance, it is not absolutely clear that the projects could be kept separate as intended.

The overall outcome could hinge on a court case in Washington State, which will determine whether the contracts signed by the utilities in the state for the two cancelled projects were valid. If they were, enough of the utilities will probably pay what they owe to Whoops to be able to keep its bondholders at bay.

However, if the worst happens, it will not come as a sudden shock to the U.S. financial system, along the lines of a Drysdale or a Penn Square.

On the other hand, the credit status—and so the financing costs—of borrowers from the Pacific North West could be very adversely affected. And the whole municipal bond market, which has become an increasingly important source of finance in recent years, would take on a new aura of risk.

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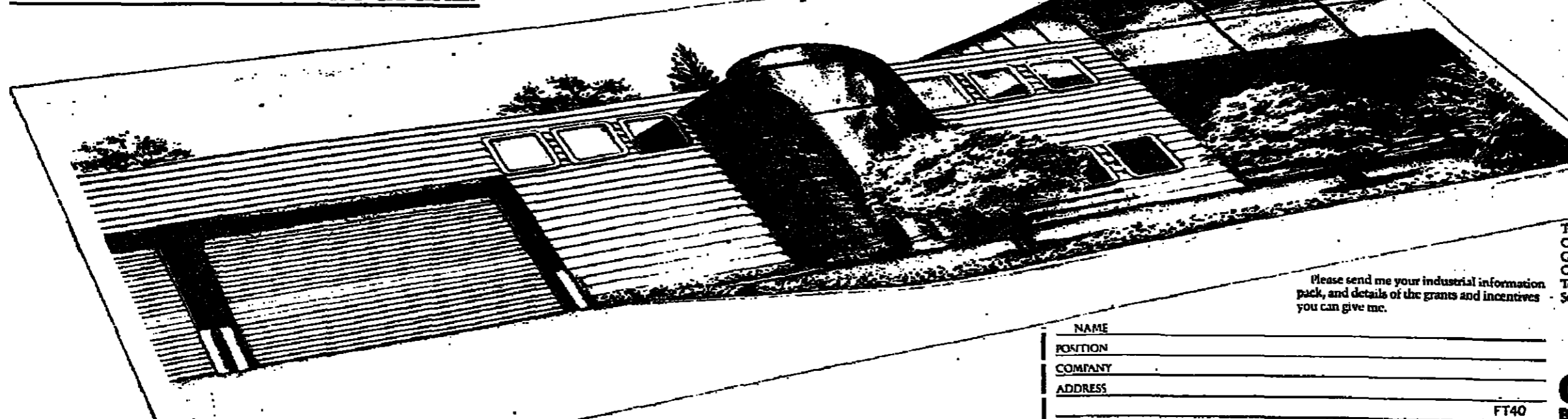
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OVERSEAS NEWS

K. K. Sharma in New Delhi examines the implications of last weekend's massacre

Assam violence threatens India's shaky unity

"AFTER THE election, there will be a new movement, a new programme. We will see that the newly formed government does not function."

A determined student leader, now evading arrest, said this in Gauhati, capital of Assam, just a fortnight before the violence began in the turbulent north-eastern Indian state to thwart the recent election.

The bloody election to the Assam legislature has now ended after convulsive events which revive memories of the massacres that took place when the subcontinent was partitioned in 1947. Prime Minister Indira Gandhi's Congress (I) party is set to form the state government, but under the shadow of the grim threat by the militant student leaders.

It would be futile to pretend that any faith can be pinned on the outcome of the Assam election in which it was predicted that Congress (I) would emerge as victor. The election was unwavering by major opposition parties and many thousands of students, who boycotted the polls.

The implications are grave for India's entire north-east flank, where an active insurrection is being controlled with difficulty in four of the seven states. Indeed, the violence has

disturbing implications for national cohesion.

The issue which sparked off last weekend's turmoil—in which more than 1,000 died—has caused trouble before.

Students seeking the expulsion of "foreigners" from Assam brought the state to an economic halt in 1979 and 1980. They claim that 7.5m immigrants have moved into Assam from Bangladesh since the British left India. The Assamese feel economically and culturally swamped by Bengalis—both of Indian and Bangladeshi origin—and the violence is emotionally anti-Bengali.

Since 1980, 23 rounds of talks between the students and the Assamese Government foundered because the Government was unwilling to accept the students' demands for the deportation of all Bengalis.

Bengali Hindu immigrants will not return to Muslim Bangladesh, even if the country agrees to take them—which it has not. It would be impossible to cope with the huge refugee problem which would arise.

The students were particularly angered by the State Government's refusal to remove the immigrants' names from the electoral rolls. The recent

election was organised on the basis of electoral rolls which had remained unrevised since 1978 and this was a major key to the party organised, partly spontaneous outbursts of the past fortnight.

For a long time, people throughout the north-east have shared a common hostility to what they consider intruders from other parts of India and outside. In the states of Mizoram, Manipur, Nagaland and Tripura, Indians are represented by the thousands of military and para-military forces who patrol their towns and villages.

Insurrection festered all over the region which is linked to the mainland through a narrow corridor north of Bangladesh which can easily be snapped, as it has been by agitators in the past. Secessionist voices are commonly heard in many of the states. Secessionism is not so strong in Assam, a state made up of diverse ethnic and religious groups with tribal affiliations, where at least four languages are spoken. Its primary concern remains the influx of immigrants.

This worry was expressed by a former senior police official of Assam, dismissed before the election because of his sym-

thies for the leaders of the Assam movement, who said recently: "If Mrs Gandhi wants to retain Assam as a colony, the reaction will be proportionate. Assam is no more a federating unit of the Indian union, but an occupied territory." This warning was prophetic.

The election, for what it was worth, was organised with the help of more than 150,000 paramilitary forces and armed policemen.

When the massacres took place in Nowgong district, the army took over law and order duties. The fear now is that what was to be a temporary show of force will become a permanent deployment, pinning down the army to duties which it has performed against rebel elements in the north-east.

The Indian Government is now faced with the danger of a chain reaction. The federal setup is constantly under threat and the Indian experiment of unity in diversity, of different races and religions submerging their differences, can easily founder if restive regional groups elsewhere in the country treat the Assam as a precedent.

This is already more than a

theoretical possibility in the north west, where the Sikh Akalis are being roused by their religious and political leaders.

In the south, regional parties have won elections easily at the expense of national political parties. Sectarian strife, involving the killing of Muslims and Hindus, are all too common all over the country. All these present a formidable challenge to national stability and unity.

Unfortunately, the country's politicians do little to combat the threat even though evidence has mounted that India's unity could easily crumble. In Assam, the suspicion is growing that Mrs Gandhi insisted on elections because she sensed an easy political victory.

The events in Assam show that once again the government and politicians have failed to assess the intensity of emotional feelings. They have chosen instead to increase the alienation of an entire—and strategically and economically vital—region. Most Assamese now feel no encouragement to be part of the national mainstream. The cost of the politicians' short-sightedness could now be extracted from the collective will and faith in a federal democratic set-up.

Numeiri accuses Libya over arms

By Charles Richards in Khartoum

PRESIDENT GAAFAR NUMEIRI of Sudan said yesterday his Government had foiled a Libyan attempt to smuggle weapons into the Sudan to arm supporters of Colonel Muammar Gaddafi of Libya.

President Numeiri said his security forces had intercepted a ship full of weapons at Port Sudan after receiving information from what he called "our people" inside Libya more than a month ago.

The plan had not been publicly revealed so that Col Gaddafi would continue to try to contact supporters inside Sudan.

President Numeiri was speaking after President Hosni Mubarak of Egypt had visited Khartoum for talks on bilateral relations including a plan to integrate the two countries.

He cited the recent reports of Libya troop reinforcements at the oasis of Kufra as evidence that Libya was attempting something against the Sudan—and said he had information that Colonel Gaddafi was intending on February 18 to attack military air base at Wadi Seidna and then attack Khartoum itself.

Political pressure on Nakasone increases

BY JUREK MARTIN IN TOKYO

MR YASUHIRO NAKASONE, the Japanese Prime Minister, is showing occasional signs of wilting under political pressure from both the parliamentary opposition and from within his own ruling Liberal Democratic Party.

This week, for example, he significantly modified a statement barely 48 hours old when he reaffirmed that Japanese policy was based on the three principles of not allowing either the manufacture, possession or introduction of nuclear weapons. He had earlier implied these might not be paramount in his government's policy deliberation.

He also said in a television interview that cuts in income taxes might be necessary soon. The budget for the 1983 fiscal year, starting in April, makes no such provision and Mr Nakasone has pointed out that financing an income tax cut might be difficult without raising indirect taxes.

Both instances are being interpreted here as indications of the Prime Minister's cognisance of the twin prevailing political concerns over his perceived hawkishness in foreign affairs.

The Asahi Shimbun poll over the weekend showed a startling fall in the popularity of his Cabinet to under 30 per cent. Though other public opinion polls have been much less negative for Mr Nakasone personally, for the CDP in general, they have underscored public concern over his foreign policies and over the influence exerted over his Cabinet by former Prime Minister Kakuei Tanaka, still on trial for accepting bribes from Lockheed.

The Japanese Government categorically denies assertions by an opposition Diet member that elements in the armed forces plotted a military coup in 1976. But it would investigate the charges "to clear the air."

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Real drop in income forecast for Indians

BY K. K. SHARMA IN NEW DELHI

STRAINS ON the Indian economy in the past year, notably a sharp drop in agricultural production and sluggish industrial output, mean that the gross national product in 1982-83 will increase by a nominal 2 per cent. This compares with an average of 3.5 per cent in the previous two years.

This gloomy forecast, which means a drop in per capita income

because of the population growth of over 2.3 per cent, is contained in the annual economic survey presented to parliament by Mr Pranab Mukherjee, India's Finance Minister, yesterday.

The poor performance of the economy is attributed mainly to the severe drought last year which affected agricultural production, with food grain output expected to drop

by about 10m tonnes to 123m tonnes. This has forced the Government to import grain and further strain the critical foreign exchange reserves.

The gloomiest reference is to the balance of payments position which "continues to be under strain" even though the trade deficit is expected to lower in 1982-83. The reserves are said to be at the relatively good

level of \$37bn (\$3.7bn) only because of drawings on the International Monetary Fund of 1.8bn Special Drawing Rights.

But a heartening development is the increase in internal production of crude oil to 21m tonnes from just 16m tonnes in 1981-82. Oil production is expected to reach 30m tonnes in 1984-85, a fivefold increase since 1972.

A redeeming feature in the otherwise bleak picture was that the inflation rate was contained at 2.6 per cent last year, an improvement over the previous year's 6.8 per cent.

But the survey speaks pessimistically about the Government's resources and hints that the budget deficit will be much higher than expected because of low revenues owing to slack economic activity

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NOTICE OF REDEMPTION



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(Convertible into Common Stock of and Guaranteed on a Subordinated Basis as to Payment of Principal, Premium (if any) and Interest by Optical Coating Laboratory, Inc.)

Redemption Date: March 25, 1983

Conversion Right Expires: Close of Business, March 25, 1983

OCLI International Finance N.V. has called for redemption on March 25, 1983 all of its outstanding 9% Convertible Subordinated Guaranteed Debentures due 1995 at a redemption price of 104% of the principal amount of Debentures plus accrued and unpaid interest to March 25, 1983, for a total of \$1,072.50 for each \$1,000 principal amount of Debentures. The Debentures are convertible into shares of Common Stock of Optical Coating Laboratory, Inc. until the close of business on March 25, 1983 at a conversion price of \$24.50 per share or approximately 40.82 shares of Common Stock for each \$1,000 principal amount of Debentures. As described below, based upon current market prices, the market value of the Common Stock into which each Debenture is convertible is greater than the amount of cash which would be received upon surrendering a Debenture for redemption. All rights to convert the Debentures into Common Stock of Optical Coating Laboratory, Inc. expire at the close of business on March 25, 1983, on which date interest on the Debentures ceases to accrue.

NOTICE IS HEREBY GIVEN to the holders of outstanding 9% Convertible Subordinated Guaranteed Debentures due 1995 (the "Debentures") of OCLI International Finance N.V. ("Finance") that in accordance with the terms of the Indenture dated as of November 13, 1980, as supplemented (the "Indenture"), among Finance, Optical Coating Laboratory, Inc. ("OCLI") as Guarantor, and Bank of America National Trust and Savings Association, as Trustee, Finance has elected to redeem all Debentures which remain outstanding on March 25, 1983 (the "Redemption Date"), at a redemption price of 104% of the principal amount thereof plus accrued interest, which will aggregate \$1,072.50 for each \$1,000 principal amount of Debentures, will be made upon presentation and surrender of the Debentures, together with all interest coupons, at the main office of any of the Paying Agents set forth below, subject to any laws or regulations applicable thereto in the country of any such office. Such payment shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. Payment at the offices of Paying Agents located outside the United States shall be made, at the direction of the holder, by check drawn on, or transfer to a United States dollar account maintained by the payee with a bank in the City of New York.

On the Redemption Date, the redemption price (plus accrued interest) will become due and payable upon each Debenture. The Debentures will no longer be outstanding after the Redemption Date; interest will cease to accrue on and after such date and all rights of the holders with respect to the Debentures will cease on such date, except only the right of the holders to receive the redemption price and interest accrued to such date.

CONVERSION OR SALE ALTERNATIVES

Debentureholders have, as alternatives to redemption, the right to sell their Debentures through usual brokerage facilities or, at or before the close of business on March 25, 1983, to convert such Debentures into OCLI Common Stock. The right to convert the principal of the Debentures to be redeemed will terminate at the close of business on March 25, 1983, the Redemption Date.

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From August 1, 1982 through February 15, 1983, the reported bid prices of OCLI Common Stock as reported on the National Association of Securities Dealers Automated Quotation System, Inc. ("NASDAQ") ranged from a high of \$46.75 per share to a low of \$14.00 per share. The last reported bid price of OCLI Common Stock on NASDAQ on February 15, 1983 was \$46.75 per share. At such last bid price per share, the holder of \$1,000 principal amount of Debentures would receive, upon conversion, 40 shares of OCLI Common Stock and cash for the fractional interest having an aggregate value of \$1908.34. However, such value is subject to change depending on changes in the market value of OCLI Common Stock. SO LONG AS THE MARKET PRICE OF OCLI COMMON STOCK IS \$25.28 OR MORE PER SHARE, DEBENTUREHOLDERS UPON CONVERSION WILL RECEIVE OCLI COMMON STOCK AND CASH IN LIEU OF ANY FRACTIONAL SHARE HAVING A GREATER MARKET VALUE THAN THE CASH WHICH THEY WOULD RECEIVE UPON REDEMPTION.

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WORLD TRADE NEWS

Doubts remain on Japan - EEC video accord

BY CHARLES SMITH IN TOKYO

THE TEN-day old agreement between Japan and the EEC under which Japan will restrain exports of video cassette recorder (VCR) sets to Europe to 4.5m sets in 1983 contains some important ambiguities that may well require further negotiation.

This was admitted in Tokyo yesterday by officials at the Ministry of International Trade and Industry and by an official for the European Commission. One of the grey areas in the agreement involves an undertaking by Japan to make it possible for the European VCR industry to sell 1.2m sets in its home market during the calendar year.

If it becomes clear as the year goes on that sales by European makers will fall short of the 1.2m level the problem will be taken up at the meetings between Japanese and European officials.

Japan, however, may not agree to further cutbacks in its own shipments to Europe in such circumstances unless it is convinced that a shortfall in European sales results from causes outside the control of the companies concerned.

A second area of ambiguity in the agreement concerns what European officials have described as Japan's undertaking to align the export prices of Japanese VCR sets sold in Europe with the ex-manufacturer prices of European-made VCR sets. Japanese officials say that they have merely undertaken to introduce a floor price system that will

result in a substantial increase in price levels. The system will be broadly similar to that already operating for Japanese machine tool exports to Europe.

A final area of uncertainty concerns the question of how far the Japanese VCR shipments will be reduced as a result of the agreement. Japan shipped an estimated 4.9m VCR sets to Europe last year but both sides agree that this figure includes several hundred thousand sets intended for re-export.

Exports of VCR sets to the EEC as a final destination totalled only 4.35m according to MITI. This means that the agreement allows for an increase in Japanese shipments of 200,000 sets during 1983.

Shipment of VCR sets to European ports for re-export is expected to continue even after the agreement comes into operation, subject to monitoring by the EEC.

Because some aspects of the VCR agreement require clarification Japanese officials say they are not particularly worried about the fact that the French Government has yet to announce the lifting of regulations under which all VCR sets imported into France have to be cleared through the small town of Poitiers. The abolition of the Poitiers ruling was one of the conditions set by Japan for agreeing to restrain VCR exports but officials admit that there is still "work to do" on the Japanese side before the agreement can be implemented.

Oil profit margins in Nigeria may rise

By Michael Hoffman in London

OIL COMPANIES operating in Nigeria have been allowed to raise their profit share per barrel they produce for themselves for the second time within a year.

The companies were told yesterday that the margin may rise from \$1.60 per barrel to \$2. Last July, following two years of negotiations with the government the allowed profit per barrel rose from \$0.80 cents to \$1.60 per barrel.

At the same time there was an increase in the technical costs they are allowed to deduct, from \$1.10 to \$1.60 per barrel. This has also been raised by 40 cents to \$2 a barrel.

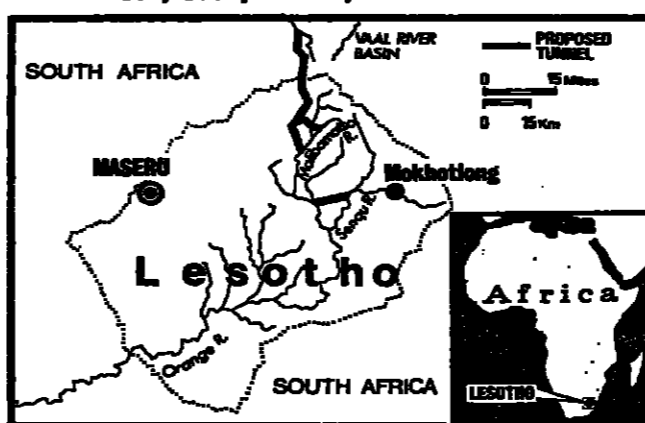
The move affects the equity crude produced by the companies - that proportion of their output which they retain according to their shareholding in joint operations with the Nigerian National Petroleum Corporation (NNPC).

The largest companies are Shell (20 per cent equity share), Gulf, Mobil, Agip, Elf and Texaco (all 40 per cent).

SOUTHERN AFRICAN ENGINEERING SCHEME

Lesotho water project on move

BY J. D. F. JONES IN JOHANNESBURG



AFRICA'S most dramatic, and diplomatically delicate, water engineering project—the \$1bn (£653m) Lesotho Highlands scheme to divert water into the Vaal Valley and South Africa's industrial heartland—is once again on the move after years of frustrating delays.

Four short-listed European consultants are now preparing their proposals, and the contract for the full feasibility study inside Lesotho, funded by \$5m from the European Development Fund, will be awarded before the middle of this year. The companies are Binnie and Partners, Sir Alexander Gibb, both British, and a French and West German firm.

The feasibility study is expected to take between 21 and 24 months. Phase one of the Highlands project—successor to the "Oxbox" project—first broached 15 years ago—is expected to cost about \$500m.

The idea, very simply, is that the plentiful water supplies of the enclave mountain kingdom of Lesotho, which presently flow via the Senqun and Maitlani rivers into South Africa's Orange River system, would be diverted northwards by a complex of dams and tunnels so as to flow into the republic's Vaal River system.

South Africa's industrial planners have long been aware that the "Watershed" will be the turn of the century suffer a grave shortage of water.

A preliminary feasibility study by the local branch of Binnie and Partners identified a score of options, but the Lesotho and South African Governments have now agreed on one.

This would require about 120 km of tunnels and five dams, which would incidentally generate more than 100 MW of electricity for Lesotho (which is at present dependent on the republic for its power supply).

But the fact that this must by definition be a joint project between Lesotho and South Africa has created a host of diplomatic problems, not least in the EEC.

The result is that two

separate feasibility studies will have to be done, one on either side of the frontier, with separate financing of each. The European Development Fund will therefore be financing only the Lesotho side of the study.

While inter-government technical co-ordination and working committees between the various consultants will be essential, the two most delicate questions concern the price which Lesotho will be able to charge for its water and, secondly, whether Lesotho will control the flow of the water into the republic.

It is believed that the latter issue has now been resolved, on the understanding that Lesotho will maintain control—but in

the knowledge that South Africa would have every conceivable lever, like control over electricity, if it objected to Lesotho's action.

The price of the water is believed to remain a matter of inter-government discussion. Lesotho is economically utterly dependent on the republic and has only two significant assets—its migrant labour force, and its water.

The present Highlands project was conceived in 1970-71 and defined in 1977-78 in a pre-feasibility study funded by Britain.

The terms of reference for the full feasibility — with EEC funds approved a year ago — have been worked out with help from the UN Development Programme.

The South Africans have not entirely concealed their impatience with the slow speed of the various bureaucratic and diplomatic procedures, since the phase one completion target of 1992 already looks very optimistic.

The World Bank originally showed interest in funding the project, but the central diplomatic snag — that the ultimate beneficiary is South Africa, however much Lesotho may benefit as well — will continue to overshadow the prospects of a smooth implementation of the regional scheme.

Exporters warned of changing markets

By Lorne Baring in Birmingham

LORD LIMERICK, chairman of the British Overseas Trade Board, warned exporters yesterday that they should expect changes in world markets as a result of falling oil prices, with some disadvantages and some benefits.

The negative effect would be a reduction in the buying power of Opec members and developing states receiving aid from oil producers, although this would vary considerably from one country to another. On the positive side, countries such as India and Brazil, where a high proportion of foreign exchange was spent on oil purchases, would benefit from lower crude prices and falling interest rates, Lord Limerick said.

Exporting companies should re-examine their marketing policies in the light of these changes, although obviously only as a broad guideline. Speaking to the Birmingham Chamber of Commerce yesterday, Lord Limerick also said there was a need for Britain to increase market share in European countries such as West Germany, where the UK supplied only 7.5 per cent of imports compared to 12 per cent from the Netherlands.

NTT defends failure to buy more abroad

BY OUR TOKYO STAFF

THE HEAD of Japan's huge telecommunications monopoly, Nippon Telegraph and Telephone, has rejected U.S. claims that NTT has been dragging its feet in the purchase of foreign equipment since the signature two years ago of a procurement liberalisation agreement with the U.S.

Dr Hisashi Shinto said yesterday that NTT had done more than was required to try to help foreign companies understand its procurement procedures.

The corporation's failure to buy more than a limited amount of foreign equipment reflected the "competitive prices quoted by U.S. manufacturers of standard equipment and the lead time required to make decisions on more sophisticated items."

U.S. telecommunications companies should be prepared to spend at least four years establishing themselves in the Japanese market, or roughly the same time Japanese shipbuilders took to break into the U.S., Dr Shinto said.

NTT expects to buy ¥8.8bn (\$88m) worth of foreign equipment during the fiscal year ending March 31, or twice as much as last year. Foreign procurement should double again in 1983 but will still be minute in proportion to the corporation's total annual purchases of some ¥700bn worth of equipment.

So far all placed orders have been on Track 1 of a three-track purchas-

ing system. This covers equipment not directly related to telecommunications.

Dr Shinto's defence of NTT's procurement record was in response to a statement by Mr William Brock, the U.S. Special Trade Representative that the U.S.-Japan procurement agreement was "worthless."

Mr Brock said in Tokyo a week ago that he could not accept the "possibility" that U.S. telecommunications companies were incapable of competing in the Japanese market. He also hinted that the current agreement might be allowed to expire in 1984.

NTT's attempts to attract foreign bidders for its procurements programme have included the dispatch for a survey mission to the U.S. last spring, the staging of an orientation seminar for U.S. companies in Tokyo in June and the holding of a seminar in Brussels (attended by about 60 European companies) in November.

The corporation publishes an English-language quarterly for foreign suppliers and allows the use of English on tender documents.

Dr Shinto (who was president of a major Japanese shipbuilding company before moving to NTT) believes that PBX switchgear and telecommunications satellites are two sectors in which Western companies should be competitive in Japan.

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Isuzu and GM agree Egyptian joint venture

TOKYO — Isuzu Motors of Japan said yesterday it has reached an agreement in principle to establish a joint venture in Egypt to produce buses and trucks with General Motors of the U.S.

The agreement, to be signed no later than April, calls for the new company to produce 1,400 buses and trucks a year after 1984 with parts supplied from Japan. The production will be increased to 18,000 units a year by 1989 with 40 per cent of the parts obtained in Egypt, the officials said.

They said the venture will be capitalised at \$5m and will be owned 31 per cent by GM, 20 per cent by Isuzu, 20 per cent by Egyptian interests and the rest by Saudi Arabian and Kuwaiti financial groups. GM holds a 34.2 per cent ownership of Isuzu.

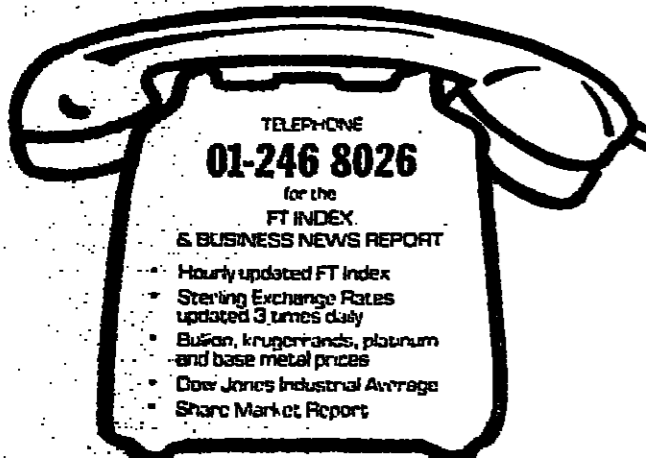
The officials declined to identify the Egyptian, Saudi Arabian and Kuwaiti interests.

The joint company is tentatively to be called GM Egypt. It will increase production to 16,500 units in 1987 and to 18,000 units in 1989.

● Toyota Motors, Japan's largest car maker, has signed a \$215,000 contract with AC Spark Plug Overseas of the UK to import 100,000 units to be used for automobile engines. AP reports from Tokyo. Toyota is to import 170,000 oil filters this year and is studying the possibility of importing 220,000 oil filters next year, they said.

● Fanuc, a major Japanese maker of numerical control devices, will start production of numerically-controlled machine tools at its subsidiary in Luxembourg this summer. Agencies

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UK NEWS

National water strike near to a settlement

BY PHILIP BASSETT, LABOUR CORRESPONDENT

BRITAIN'S first national water strike was on the verge of settlement last night on the basis of the findings of the committee of inquiry which was established to resolve the pay dispute.

Union negotiators for the 28,000 manual workers in the water and sewerage industry appeared ready to call off the four-week old strike under the plenary powers given to them by the union leadership.

The report from the deeply divided three-man committee of inquiry, which began work last week, recommends pay rises of 9 per cent over 12 months or 12 per cent over 16 months.

This compares with the employer's final offer, before the committee was set up, of 7.3 per cent over 16 months.

While the final offer, made through a meeting of the National Joint Industrial Council, may still be put to union members for information purposes, it seemed unlikely last night that the workers would be given the opportunity to take the decision on the inquiry's results.

The committee, under the chairmanship of Dr Tom Johnston, principal of Edinburgh's Heriot-Watt University, finally completed its report yesterday, two days later than originally expected. It was de-



Dr Tom Johnston

livered to Mr Pat Lowry, chairman of the Advisory, Conciliation and Arbitration Service, but it was signed only by Dr Johnston.

The two other members of the inquiry, Mr Bill Keys, joint general secretary of the print union Sogat '82, and Mr Michael Belt, industrial relations board member for British Telecom, had split over the money to be awarded. Their disagreement had not been resolved by the time the report was completed.

Details of Dr Johnston's findings were put to both unions and employers. It was understood last night that his recommendation was

to award the extra money mainly through the consolidation of some productivity earnings.

The employers' offer made before the inquiry would give increases in weekly average earnings of £10.61. An award based on Dr Johnston's recommendation would raise this to over £12.

Two lengthy discussions had delayed still further publication of the inquiry's report and the unions' response to it. First, detailed technical work was carried out on the findings, applying them to specific jobs to discover how individual earnings would be affected by the productivity proposals.

Much more difficult, though, was an argument about how to present the findings as an award. Since under the 7.3 per cent offer, two thirds of the workforce would have received increases of 8.5 per cent because of a doubling of a supplementary payment to long-service workers, an increase of 9 per cent could be presented as only a marginal concession by the employers.

However, because the 7.3 per cent offer over 16 months was worth less than 6 per cent on the pay bill over 12 months, union leaders were keen to have the Johnston-based offer presented as a significant improvement.

Minister to meet Allied over closure at Linotype-Paul

BY LORNE BARLING AND IAN RODGER

EXECUTIVES of Allied Corporation, the U.S. parent of Linotype-Paul, have agreed to meet Mr Patrick Jenkin, the Industry Secretary, on Friday. They will explain their decision to stop production of electronic typesetting machines at Linotype-Paul's two factories in Cheltenham, Gloucestershire, with the loss of 500 jobs.

Mr Jenkin said yesterday he was surprised at Allied's decision because he understood the Linotype-Paul operations in Britain were fairly successful. He was seeking to find out if there was anything that the Government could do to alter the decision to concentrate production of electronic typesetting machines at the company's factory in West Germany.

Mr Klaus Paul, founder of Linotype-Paul, has resigned as non-executive chairman of the company in protest at Allied's action.

Another director, Mr Derek Kyte, has also announced his resignation. Linotype-Paul has claimed that the outlook for sales of its machines was not bright and has pointed to the need for concentrating production. The choice of West Germany was tied in with research and development factors.

"The group recently stopped man-

ufacturing in the U.S. to cut losses," the company said yesterday, "and the same is now happening in Britain. The decision was not taken lightly and followed a four-month study by consultants."

Mr Bob Bloomfield, chairman of the employees' consultative committee, said that while the company had made a loss of £0.5m last year, it was forecasting a £1.7m pre-tax profit in the current year. It was on target in the first quarter with a profit of £407,000.

Profits had been £1.1m in 1981, £1.9m in 1980 and nearly £4m in 1979, he said. "A loss of £500,000 should be easily sustainable in view of the profits made previously."

Linotype-Paul did not dispute these figures in respect of the UK operations of the company, but said the loss last year had been nearer £800,000 and that the Linotype-Paul group as a whole, including U.S. and German operations, had been in loss for the past three years.

Metal Box signs deal on 35-hour week

By David Goodhart

METAL BOX has become the first major engineering company to reach agreement on a 35-hour week for hourly paid shift workers.

The agreement - which will cover more than 5,000 workers - has been greeted by union leaders as a major breakthrough which is likely to set a precedent for conditions agreements in the engineering industry.

The reduction in hours will be in two stages - from the present 37½ hours to 36½ hours in April and down to 35 hours next January.

The agreement on hours was tied in with an average 6 per cent pay rise and the introduction of continuous five-shift working.

Mr Terry Duffy, AUEW president, said yesterday: "This agreement just proves that new technology and continuous shift working can bring substantial rewards."

Control Data plans to take 38% of UK computer group

BY GUY DE JONGHER

CONTROL DATA, the large U.S. data processing manufacturer, plans to invest £1m to acquire 38 per cent of Systime, one of Britain's fastest-growing computer companies.

The proposed deal, announced yesterday, would make Control Data the single largest shareholder in Systime. A further £1m is to be invested by Ivory and Sims, the Scottish investment house, on behalf of institutional clients, along with merchant bank Kleinwort Benson and another unnamed investor.

Systime, which is not a quoted company, said the £1m injection would roughly double its capital base. It expects to use the additional funds to finance further expansion and to cover part of the cost of a £20m production plant which it built recently in Leeds.

The company, which was founded in 1972, reported trading profits of £2.2m, on turnover of £20.1m, for the year to September 30 1981. It said sales were growing at an annual rate of 40 per cent.

It specialises in supplying business system packages using mini- and microcomputers which it developed itself. It is one of Control Data's largest UK customers, and bought £3m worth of memory de-

vices and other peripheral products from the U.S. company last year.

Control Data is particularly strong in large computers and peripherals and specialises in education and training systems. It does not supply microcomputers at present, but is expected to discuss with Systime the possibility of selling the latter's smaller machines in the U.S., though no firm plans exist at present.

Control Data, which had sales of more than \$1bn last year, already has production facilities in the UK, where it employs about 1,600 people. It also owns United Peripherals, a computer equipment supplier, jointly with the British Technology Group.

The BTG at present owns 29.5 per cent of Systime. Its interest will be diluted to about 12 per cent after the new investments. Ivory and Sims's holding is due to fall to 35 per cent from 38 per cent while the percentage of equity owned by Systime's directors and staff will decline to 12 per cent from 34.5 per cent.

Systime said that it had recently been approached by several prospective investors, one of whom is understood to be Standard Telephones and Cables.

Ex-Lloyd's broker makes legal move

BY JOHN MOORE, CITY CORRESPONDENT

MR Christopher Moran, the first Lloyd's insurance broker to be expelled from the market under Lloyd's legislation, has been given leave to apply for a judicial review in the courts of the expulsion verdict.

He is understood to have gained clearance from the courts last month to make application and the case could come before the courts in the next few weeks.

Last October, insurance and broking and underwriting was stopped at Lloyd's after all members were summoned to vote on the expulsion of Mr Moran from the market.

Nearly 2,000 members of Lloyd's attended the meeting. Expulsion required a majority of 80 per cent of those voting on such resolutions. In the vote, 1,708 supported the move to exclude Mr Moran from the society and 113 voted against.

Mr Moran had been found guilty after arbitration of taking a profit commission not provided for in the terms of an insurance contract arranged with Lloyd's syndicate 556.

He was also found guilty of concealing from the Lloyd's committee and the syndicate's auditors the extent of sums of money which his broking company was spending on buying reinsurance for the account of the syndicate.

He was found guilty in his capacity as a director of his underwriting agency of condoning the failure of the underwriter to exercise any control over the operation of an insurance contract. The arbitration said that he failed to ensure that correct figures were submitted to the authorities in the proper time for approval.

He was found guilty of abusing his discretion in the operation of the insurance contract by "exposing the syndicate to unnecessary and unacceptable financial risk" through arranging reinsurance for the syndicate disproportionate to its income and liabilities.

Together with an underwriter, Mr Moran was found guilty of acts or defaults creditable to both of them in connection with the business of insurance.

Army's foreign diet not British, Thatcher told

BY JOHN HUNT

WITH THE Labour Party showing little signs of revival in the House of Commons yesterday it was left to Conservative MPs to put the Government on its mettle.

Sir Timothy Kitson, chairman of the all-party Commons defence committee, gave Mrs Margaret Thatcher a nasty turn during Prime Minister's question time. He suggested that she should have a word with those responsible for buying food for British forces in the Falklands.

When the committee was on the islands its members were surprised to find the troops were eating French apples, Danish bacon, Eastern European pork, Uruguayan beef and (significant pause) Argentinean tinned beef. There were, however, a few cabbages from Lincolnshire.

"Surely Britain can do better than that," he commented. For a moment Mrs Thatcher was stopped in her tracks. Then, staging a quick recovery, she dismissed herself from the allegation by adopting that manner which implies 'yes, isn't it shocking; the Government really should do something about it!'

She recalled that she had helped launch the Food from Britain campaign and assured Sir Timothy that his strictures would be brought to the attention of the appropriate people.

There was some awkward juggling between her passionate patriotism and her commitment to the free market, as she ended up by urging British food companies to put in competitive tenders to feed British soldiers.

As Sir Timothy put his question he was cheered on by Labour MPs who were probably wondering "Why don't our lot manage to think up questions like that?"

Mr Foot seemed in a fairly subdued mood after the weekend's stormy denials of his leadership. Perhaps he was a bit worn out after that morning's exertions when he had given Greater London Council (GLC) leader Ken Livingstone a tongue-lashing and persuaded him to drop proposals for donating £53,000 to the Troops Out movement, which is opposed to British policy in Ireland.

It cannot be easy having to rush around quashing proposals which almost seem designed to ensure the election of the Liberal Alliance candidate in tomorrow's by-election at Bermondsey.

Mr Shirley Williams of the Social Democratic Party slipped in to take advantage by calling on Mrs Thatcher to block any GLC attempt to give ratepayers' money to the Troops Out campaign.

Poll boost for Liberals

BY MARGARET VAN HATTEN

THE LIBERALS have drawn level with Labour in the Bermondsey by-election, according to an opinion poll taken over the weekend, and were yesterday being tipped as favourites to win tomorrow's poll, in the former Labour "stronghold".

The Opinion Research Centre poll, taken from 842 people in Bermondsey on Saturday, Sunday and Monday, gave Mr Simon Hughes, the Liberal Alliance candidate, and Mr Peter Tatchell, the Labour candidate 30 per cent each.

Mr John O'Grady, the Indepen-

dent Labour candidate, had slipped to 18 per cent, barely ahead of Mr Robert Hughes, the Conservative who with 10 per cent may be in danger of losing his deposit. The remaining 12 candidates had 14 per cent between them.

Ladbrokes were yesterday giving odds of 6-5 on both the main candidates, while William Hill was quoting Mr Hughes at 6-4 and Mr Tatchell at 6-5.

How not to win an election, Page 15

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UK NEWS

Indicators show economy to be still stagnant

BY OUR ECONOMICS STAFF

FURTHER confirmation of the stagnant state of the British economy, particularly in the key manufacturing and industrial sectors, was published by the Government's Central Statistical Office yesterday.

All of the cyclical indicators which the Government uses to try to predict the future movement of the economy showed very little movement in January, although it is difficult to draw conclusions from any movement since the indicators have become increasingly poor and unreliable markers. According to the longer leading indicator, the economy has been marching forward for most of the past 12 months, whereas it has actually remained fairly stagnant.

The longer leading indicator predicts changes in the economy one year ahead. It has moved from 107.1 in January 1979 to 100 to 110.3 in November, falling back to 110.2 in both December and last month.

Factors which would have moved the indicator ahead, such as improved housing starts and slightly improved business optimism, were cancelled out by movements in interest rates and share prices.

The shorter indicator, which attempts the same process but over a period of six months ahead, spent most of last spring and summer stuck at about 112 and in the autumn at 114. In December it moved to 115.7 and last month was 116.4, although some of the data for January are missing.

The coincident indicator, which shows the present state of the economy, had a fairly static 1982 except for signs of improved activity in July and August when it moved from about 101 to 102 and then 103. In November the coincident index was at 104, where it remained in December, moving marginally to 104.3 last month.

The positive effects of rising retail sales and capacity utilisation were almost cancelled out by depressed manufacturing production and changes in industry's stocks of raw materials.

The fourth indicator is the lagging index, which attempts to show turning points in the economy about a year after they happened. This has been at about 88 and 89 for most of the year. Last month, it was at 89.2.

EEC aid sought for deprived city areas

By Kevin Brown

THE GOVERNMENT is to press the European Commission to make deprived city centres eligible for direct EEC aid, Mr John MacGregor, the Industry Under-Secretary, told the House of Commons yesterday.

Questioned by a Labour MP Mr George Park, Mr MacGregor said the Government would urge the Commission to extend aid from the European Regional Development Fund for designated assisted areas to areas included in the government's inner urban areas scheme.

Mr MacGregor, opening a debate on the West Midlands, denied that aid had been directed away from the area. Aid to BL alone totalled £1.55bn compared with £1.87bn to the end of 1982, for all other regions.

Mr Park, opening the debate for Labour, said there were 49 people chasing every West Midlands vacancy. He contrasted the Government's unwillingness to break international trading laws by banning car imports with the limits already imposed by other countries. "Are we to go on playing cricket while others practice karate?"

Music men launch the silver disc

BY JASON CRISP

THE EUROPEAN launch of the world's newest hi-fi product, the compact digital disc - which is expected eventually to replace the long playing record - began yesterday with the now obligatory razzmatazz.

The London ceremony was attended by disc jockey and television presenter Noel Edmonds, some ageing rock stars and executives from Sony and Polygram, accompanied by loud pop music.

Tomorrow Philips, which developed the system, will unveil its players to the trade accompanied by an orchestra.

The disc, hailed as the greatest audio innovation since stereo ar-

rived in the 1950s, will be officially available in the shops from next Tuesday. It has a much higher sound quality than the conventional LP and is likened to an original master tape.

The disc itself is silvery, single-sided and just under 10cm in diameter, and plays for one hour. The technology is based on Philips' Laser Vision video disc. Every disc has billions of minute pits on the surface which are read by a tiny laser beam.

Development was started by Philips in the 1960s. The final development was done in conjunction with Sony from October 1979.

Unlike video cassette recorders,

video discs and even audio cassettes, the world's consumer electronics industry has agreed on a common format for audio discs. More than 30 hi-fi companies are backing the system, including Matsushita, Toshiba and Hitachi.

One of the advantages is that there is no wear on the discs - they are durable and are not easily damaged.

The compact disc was first launched in Japan last October, and the sale of 30,000 units in the first three months was better than expected.

Sony estimates that 40,000 players will be bought in the UK in the first year. The system is being

launched at the same time in France, West Germany and the Netherlands. Later in the year it will be launched in North America.

By the end of the year Sony estimates world sales will be 300,000 units, rising to 800,000 units by the end of 1984.

Philips is launching two versions of the player in the UK, both costing £499 (£765). The Sony model will retail in the UK at £549 and has facilities for instantly selecting a track or repeating part of the disc.

The discs themselves will cost between £8 and £10. At present only two factories press the discs - Polygram in Hannover and CBS/Sony in Japan.

Volvo told to drop 'British' sales tag

By Kenneth Gooding, Motor Industry Correspondent

A BITTER row about some Volvo trucks and buses being classified as "British" has intensified after protests from Leyland Vehicles, the BL subsidiary.

The Society of Motor Manufacturers and Traders, which last August awarded the classification to vehicles made at Volvo's plant in Irvine, Scotland, has now told the Swedish group that the "British" classification is "in suspense" and that no mention of it should be made in advertising and promotion for the time being.

The society's officials awarded the classification since Volvo vehicles made at the Scottish plant fulfilled the requirement that 50 per cent of the total cost of production was British.

Leyland argues that the claim must be open to question because the vehicles have Swedish cabs, engines, gearboxes and axles.

Behind Leyland's agitation is the fact it has been told by two major, state-owned organisations that Volvo vehicles have been added to the list of "British" products which they would consider purchasing.

UK residents born overseas total 6% of population

BY ROBIN PAULEY

ABOUT 6 per cent, or 34m, of Britain's 54.3m population was born outside the UK, nearly half of them coming from the new Commonwealth countries and Pakistan. This compares with 5.5 per cent of the 53.8m population in 1971, a rise of about 4m.

The analysis of country of birth of British residents from the 1981 census data, published yesterday, shows that 1.5m people were born in the new Commonwealth and Pakistan, compared with 1.15m of the residents at the time of the 1971 census.

There was a sharp fall in the number of people in Britain who were born in the Irish Republic, down from 709,000 in 1971 to 612,000 in 1981, a fall of 14 per cent.

Of the 51m people living in Britain in 1981 who were born in one of the three countries of Britain, the vast majority were still in their country of birth. Some 98 per cent of the English born were in England, 96 per cent of the Scots were in Scotland and 79 per cent of the Welsh were still in Wales.

The number of Scotsmen who venture to live in Wales and the number of Welshmen who go to live in Scotland both fall below statistical significance - less than 0.5 per cent of each country's resident population. In fact, in 1981 there were only 13,000 Welshmen in Scotland (population 5m) and only 21,000 Scots in Wales (population 2.7m).

About a third of Britain's population lives in Greater London, the metropolitan counties and the Yorkshire conurbation. But of the population born abroad 55 per cent live in those areas. The population born abroad is particularly concentrated in Greater London and the West Midlands.

The number of males per 1,000 females in Britain remained exactly the same - 943 - between 1971 and 1981. Within this total, however, there have been some significant changes during the decade, mainly because wives and children of immigrants from the Indian sub-

continent came to Britain in a major reunification of families during the 1970s.

For the new Commonwealth and Pakistan born population as a whole, the male-female ratio fell by 10 per cent to 109 men for every 100 women. Within this figure, the ratio fell by 44 per cent between 1971 and 1981 for the population born in Pakistan and Bangladesh. In spite of this, there are still nearly 50 per cent more men than women who were born in Pakistan and Bangladesh, indicating the extent to which families from those countries were separated during the immigration of the 1960s and 1970s.

The 1981 Labour Force Survey, also published yesterday, shows that the proportion of the population which is of working age is only 58 per cent of those born in the UK.

But it rises to 76 per cent of those born in the Irish Republic and 84 per cent for those born in the New Commonwealth and Pakistan. This shows that very few of the immigrants who came to Britain during the past decade have yet reached retirement and pension age.

The number of live births recorded in England and Wales continues to fall, being estimated at 626,000 in 1982, about 1.4 per cent or 8,000 down on 1981, which itself was 3 per cent down on 1980.

The birthrate fell between 1971 and 1981 was dramatic both for women born inside and outside the UK. For women born in the UK the number of births per 1,000 women fell from 84 to 62, a reduction of 27 per cent.

The birthrate for women from Ireland fell from 115 per 1,000 women to 86, a 43 per cent reduction. That matched the 42 per cent fall from 112 births per 1,000 women to 65 for women born in the Caribbean. Part of the decline in these two categories may have been due to the older age structure of women within childbearing age (15 to 44) in 1981 than 1971.

Census 1981: Country of Birth (RMSO £9.10).

Welsh miners to vote on pit closure strike

BY ROBIN REEVES

THE THREAT of a strike over pit closures re-emerged in South Wales yesterday, after the decision of a group of miners at a threatened colliery to stay underground until the National Union of Mineworkers (NUM) agrees to support their fight.

The strike by 26 miners at the Lewis Merthyr colliery, near Pontypridd, was being led by Mr Des Dutfield, the colliery's lodge secretary and vice-president of the South Wales NUM.

Their action triggered an immediate sympathy stoppage by other miners in the area. By late yesterday some 3,000 men had stopped work.

The National Coal Board (NCB) wants to close the colliery in July when its best coal seam is exhausted. Miners are demanding further investment to open up a new face and extend the life of the pit.

After discussions at a meeting of the NUM's South Wales executive yesterday, it was agreed to recommend an emergency coalfield ballot on strike action to a conference of South Wales miners in Bridgend today. The aim would be to complete the ballot by Friday, with a view to

beginning the strike on Monday - assuming the recommendation is accepted.

Last month South Wales miners threatened an all-out strike over pit closures and lack of investment in the coalfield. The threat was lifted when the NCB agreed to look more closely at possibilities for further investment in South Wales, particularly in anthracite production.

Today's coalfield conference may be reluctant to provoke a fight with the NCB over the Lewis Merthyr colliery. The NCB issued a detailed statement yesterday stressing that, despite efforts by men and management, further investment at the pit could no longer be justified.

The colliery was severely handicapped by a "hopeless legacy of a weak roof and soft floor," and production conditions were becoming so difficult that the pit's operating losses were set to increase from £1m to £7m a year.

There was no realistic option other than the closure of the colliery and the transfer of its 539 miners to neighbouring pits with more acceptable conditions. All Lewis Merthyr miners would be found jobs within a 12-mile radius, the statement said.

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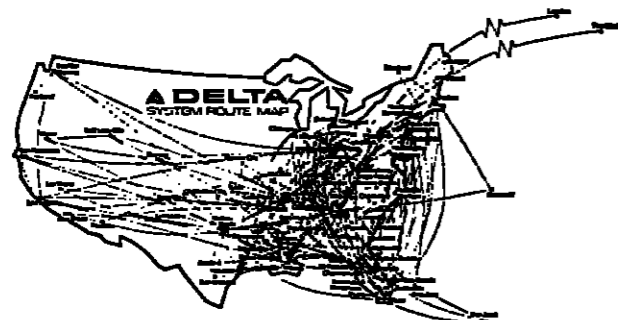
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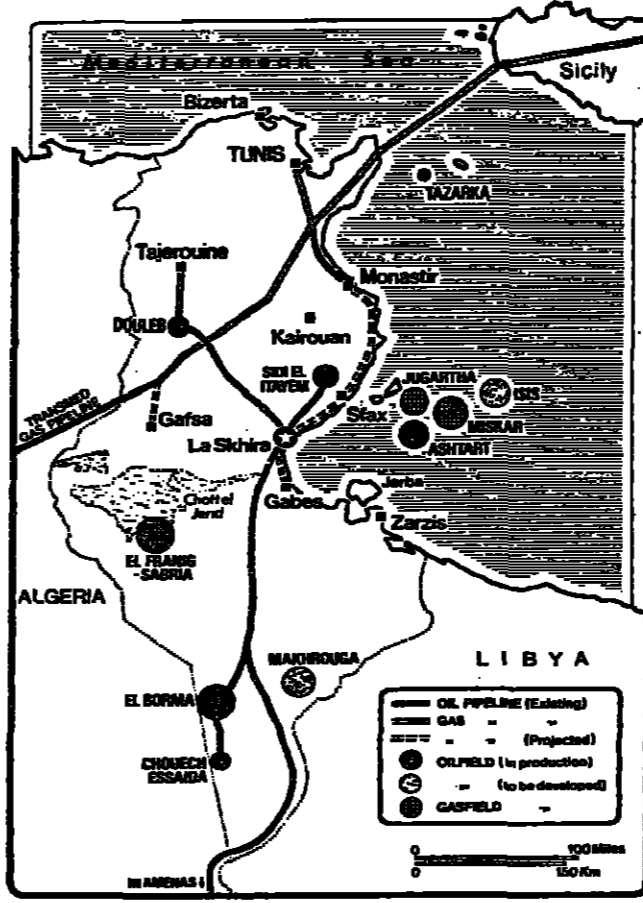


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ENERGY REVIEW

Oil: Tunisia's blessing in disguise

By Francis Ghiles, recently in Tunis



Bob Hutchings

BY MIDDLE East standards, Tunisia is a very small producer of crude oil, about 100,000 barrels a day on average, every year, since 1979.

The smallest of the three North African countries does not belong to the Organisation of Petroleum Exporting Countries (Opec) and only joined the Organisation of Arab Oil Producing Countries (Oapoc) last year, after much opposition from its troublesome southern neighbour, Libya.

However negligible Tunisia's role in international oil politics may be, such wealth as it has in oil, gas and condensate has been a crucial factor in maintaining the country's steady rate of economic growth since 1974.

Since oil was first struck, in commercial quantities, in 1964, at El Borne, on the country's south-west frontier with Algeria, oil exports have run only second to tourism as the country's major hard currency earner. They have provided a major contribution to what has traditionally been a weak balance of payments.

As the value of oil exports is expected to decline this year, apprehension is expressed by senior Tunisian officials, concerned that some of the industrial projects planned for the current Five Year Economic Development Plan (1982-1987) may have to be cancelled.

President Habib Bourguiba, who has ruled the country since it became independent from France a quarter of a century ago, was once quoted as saying that being a small producer of oil, rather than a large one, was probably a blessing in disguise for Tunisia. It meant that it did not nurture economic ambitions above its station and ensured that more traditional activities in industry and agriculture were not deserted for what might be the mirage of new-found oil wealth. Retroactively, the President can only be said to have been right.

Yet, as the production of

crude oil declined in 1981 and 1982, for technical reasons and not because of the worldwide oil glut, senior officials in Tunis can be forgiven for wishing that their country was just a little richer in oil and gas. They need not then have worried so much about the deficit of the balance of payments as they do today.

Tunisian officials and foreign oil companies drilling in Tunisia agree that there is little promise of a major oil or gas find. Yet the money being spent on exploration is still increasing: from Dinars 490m (£511m) during the last Economic Development Plan (1977-82) to Dinars 730m during the current Five Year Plan (1982-1987).

More than two dozen foreign companies are actively drilling, onshore and offshore, and M Habib Lazreg, director-general of the state oil company, Entreprise Tunisienne d'Activités Pétrolières (Etap), is confident that there will be no lack of candidates for the five or six blocks which Tunisia plans to farm out for further exploration this year.

He believes that Tunisia has been lucky, insofar as the blocks he is putting out to international tender in 1983 are close to ones where oil, gas and condensate have been struck, recently, in commercial quantities.

Other factors explain why Tunisia has been reasonably successful in attracting foreign companies to explore. The country has been politically stable for a long time and the level of taxes levied on the oil companies is considered quite reasonable. This was not always the case and some companies feel that the burden is, once again, getting a little too heavy for comfort.

All agree, however, that the Tunisian authorities do not change the rules of the game arbitrarily. The quick-witted and very urbane M Aouzou Laroui, the Economics Minister

who is responsible for overseeing the energy sector, insists that he does not want the "oil companies to lose money. He wants as many holes drilled as possible and adds "that his door is always wide open to the companies if they feel they have any problems."

As it is, no oil company seems to be packing its bags. Good relations between the Tunisian Government and the oil companies are crucial because Tunisia simply does not have the means to conduct the thorough exploration

programmes needed to locate new oil resources.

The foreign oil companies do, however, bemoan what they feel is the absence of long-term policies where oil exploration is concerned. They argue that they often need a quick "yes" or "no" from the authorities when they stumble across an unforeseen difficulty in the area they are prospecting. Quick decisions are not always forthcoming, though the speed with which M Sadok Rabah, the recently appointed director of production and exploration, deals with his new department's affairs has given the companies some ground for optimism.

Recent oil and gas discoveries owe much to the switch in policy implemented in the late 1970s. After the discovery in 1971 of the offshore oil field in Ashrat which is operated by Elf Aquitaine and Erap, and with the exception of the

offshore gas field of Miskar, which will not be developed until a later stage, the 1970s yielded very meagre results.

This led the Tunisian authorities to reassess their policies thoroughly. They decided to farm out smaller blocks, thus intensifying exploration; they started to prefer smaller companies, notably from the U.S., who might have more incentive to explore thoroughly than some of the majors who had long been present in Tunisia.

In some respects, Elf Aquitaine and Total, the two major French groups were the victims of having explored for so long in Tunisia, without much luck. Both accept today that they needed to review their methods of exploration. New techniques have also played a role in recent successes, all the more so as the country is, in geological and seismological terms, extremely complex. Sophisticated techniques and thus more likely than elsewhere to result in new oil finds.

The results of this switch in policy came quickly. Eighteen months ago, Amoco struck gas and condensate at El Frangin, while Marathon appears to have made an interesting discovery of gas, oil and condensate at El Bibane, just off the southern town of Zarzis, in very shallow waters.

Houston Oil and Minerals, a subsidiary of Tenneco, has found interesting indices of oil in, of all places, the suburbs of the country's second largest city, Sfax.

Oil is being found in areas which have been explored before. As a result, companies are trying to reclaim concessions given up as hopeless only a few years ago. Such is the case of Elf Aquitaine near the holy city of Kairouan. The French company surrendered a concession there in 1973, which it is seeking to reclaim, this time with an ally in the form of the Kuwait Foreign Petroleum Company.

Similarly, Marathon, which had handed back to Etap part of its concession in the south-west, reclaimed it after oil and gas were struck at El Frangin in 1981-82.

For Total, the story is a less happy one. It has not been lucky onshore while three-quarters of the offshore oil it held, together with Agip of Italy and

Elf Aquitaine, in the Gulf of Gabes were lost to Libya when the International Court of Justice ruled, in favour of Tripoli, a year ago, in the test case denunciation dispute between the two countries. The loss is all the more keenly felt as geological surveys suggest that there was a good chance of finding oil.

During the last round of concessions, four years ago, about 75 per cent of Tunisian territory was farmed out for three or four years to foreign companies. That percentage could be increased by the concessions which should be handed out this year. Here again, the Tunisians have granted concessions to a given company to the generalised use of international competitive tenders.

Research has been dynamised by the new policies, while the Tunisians have much benefited from the foundation of Etap nine years ago. Much concern had been expressed three years back at the lack of new discoveries and it was feared, in Tunis, that the country might have to import energy after 1988. That fear has now receded but the energy team built up by M. Laroui is intent on ensuring that into the 1990s Tunisia will be able to continue exporting the same volume of oil as in recent years.

That is crucial if Tunisia's balance of payments is not to deteriorate further, and the country's economic independence be put in jeopardy.

The authorities are acting on two other fronts to conserve energy. First, they have increased domestic energy prices since 1980. Secondly, they have initiated sector studies to find out how trains, boats and heavy lorries can save oil and fuel.

While it was not a party to the events which brought about the large increase in the price of oil, nearly 10 years ago, Tunisia has benefited considerably. The authorities were slow to adopt a more dynamic policy of research for oil but the reassessment carried out on that front since the late 1970s has already yielded handsome dividends.

Good relations between the foreign oil companies and the Tunisian authorities will remain the key to Tunisia's future as an oil producer. That is even more true at a time when the price of oil is falling sharply.

How management prepared the way for automation

BY PETER BRUCE

NEARLY 200 delegates to a Financial Times conference on automated manufacturing were warned yesterday not to regard advances in automation merely as a means of reducing labour costs.

Mr J. R. Mowat, managing director of Anderson Strathclyde, the Glasgow-based mining equipment supplier, said every aspect of a business should be scrutinised before investing in automation systems.

"Automation should be regarded as a means primarily of increasing the efficiency of the business," he said. "Too often, in my opinion, it is the vehicle by which management reduces manning. Not surprisingly, in these circumstances resistance from the employees will be increased."

Anderson Strathclyde has ordered a £5m flexible manufacturing system (FMS) which is due to come on stream next year. Mr Mowat said the company had undertaken not to impose any redundancies on its total workforce of 4,220 because of the FMS project and employees had accepted that job cuts could be encouraged through natural wastage.

He said the new system, ordered from Giddings and Lewis-Fraser, the Arbroath machine tool manufacturer, would reduce lead times to a sixth and machining times to a fifth. Based on 1,000 components a year, this could eliminate 30 current jobs and reduce the inventory by £1m.

Mr Cesare Bracco, vice-chairman, manufacturing, of Fiat, said that since 1972 the company had assigned the main role in automation to robots. This had come about after running into difficulties with workers using the rigid, high volume technology introduced up to the end of the 1960s.

The robot had only eliminated jobs which workers found unsatisfactory. "However," he said, "it is clear today that it is impossible to imagine a factory composed only of robots. There is a great deal of work to be done on the car which demands specific processes in which the robot has only a limited role, as in helping to load and unload parts."

Mr Bracco also raised a theme expressed throughout the conference — relative immaturity of robotics technology. An area where the industry was still at the start on the way to automation was final assembly of the car.

"Here, for all manufacturers, we can say that manual labour still dominates unchanged, even if some phases have been automated. On this front the race is completely

open and I believe that whoever succeeds in the automation of this final phase of production, without losing sight of flexibility, will gain the edge over their competitors."

Mr Joe Engleberger, chairman of one of the world's biggest robot manufacturers, Unimation, told the conference that while many studies had shown that robots could be used to relieve people of tedious jobs, the best reason for buying one was economic.

After an initial investment of, say, \$50,000 a robot, he said operating costs could be as low as \$6 an hour, compared to an average of \$19 an hour currently being paid to employees in the U.S.

Mr Mike Bright, managing director of Kearney and Trecker Marwin, the UK machine tools manufacturer, said his company was developing complete flexible manufacturing systems which would sell, on average, for between £3m and £10m.

But the company had decided to market its product on step-by-step basis, as authoritative studies had shown that of large systems installed in the U.S. and Japan over the past 15 years, 14 out of 16 users were dissatisfied with performance. The systems had not proved economically justifiable because of poor pre-planning by the buyer and, in some cases, because of over-optimistic estimates by the manufacturer.

Dr Michael Cooley, a former president of AEUW-TASS, the British engineering union, followed up Mr Mowat's address by calling on automated systems manufacturers to ensure that their developments in new technology did not exclude the human element.

It had been argued that because of frailties associated with human beings, new systems should be designed to be able to operate without regard to human manipulation. However, it was important that manufacturers faced up to their social responsibilities.

"It would be useful to build human uncertainty into technology," he said, "because the degree to which it can tolerate that uncertainty is a measure of its robustness."

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23rd February 1983	

TECHNOLOGY

EDITED BY ALAN CANE

WORLD'S LONGEST UNDERSEA TUNNEL NEARS COMPLETION BENEATH TSUGARU STRAIT

How they linked Honshu to Hokkaido

BY ROY GARNER IN TOKYO

FOR over 20 years, the Japanese have been tunnelling beneath the Tsugaru Strait, whose storm tossed waters separate the main Japanese island of Honshu from Hokkaido.

Now the world's longest undersea railway tunnel — 53.85 km — is nearing completion. At 9.23 am on January 27, Prime Minister Yasuhiro Nakasone, detonated by remote control over a telephone line from Tokyo, 700 km to the south, an explosion in the 5 metres wide pilot tunnel which opened the way for a powerful and refreshing breeze from the mainland.

The Seikan tunnel is an historic communications link, first envisaged nearly 50 years ago by the Japanese Imperial Army. Exuberant construction workers celebrated the joining of the two halves of the tunnel with beer and sake, reflecting the significance the project has for many Japanese despite the widely-held belief that the project will never prove economically viable.

Certainly, the earthwork itself due for completion in 1985 is regarded as one of the greatest achievements of tunnel engineering in history.

Some 23 km of its total length run under the sea — and under international waters, raising interesting questions about jurisdiction over incidents aboard trains in mid-tunnel.

It is also remarkable for the daunting terrain through which Japanese engineers have shown the courage and technological skill to dig.

Geological surveys began in 1953, using sonic wave, magnetism, artificial earthquake and seabed-boring methods. But the complexity of the undersea topography, and the strong currents of the strait, were such that a fully satisfactory survey proved impossible.

Nevertheless, in 1964, the Japan Railway Construction Corporation started work, relying on the drilling of a pilot bore to check the strata that lay ahead.

The drilling of the main tunnel, with a total diameter of approx. 11 metres, plus a smaller parallel service tunnel, diameter 4 to 5 metres, both undertaken by 17 subcontractors, has proceeded a mile or so behind. What the pilot tunnellers discovered was a nightmarish combination of silt, tuff, shale and a variety of intermingled volcanic rocks, often



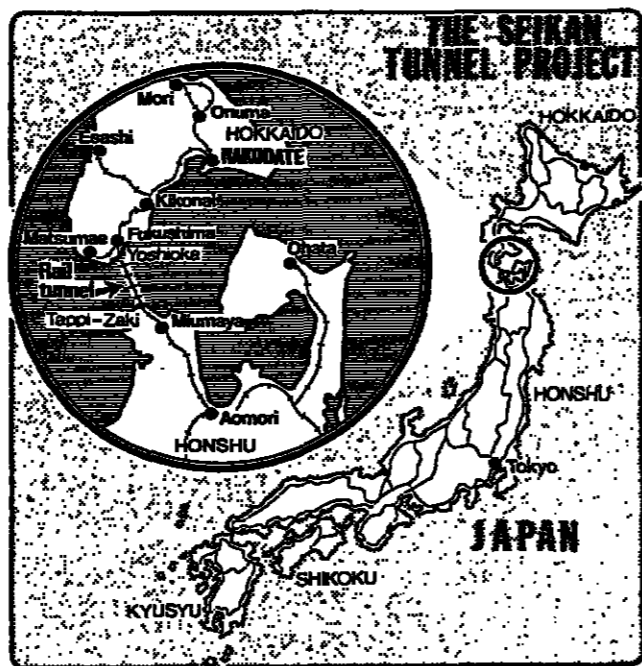
Tunnellers celebrate with sake and cries of 'banzai,' above as the islands are linked

containing large amounts of water.

Major faults were encountered on nine occasions. In two instances, in 1976 and 1977, such faults led to sudden flooding, at rates of up to 80 tons of water per minute, and these and other difficulties have caused the deaths of 33 workers and the injury of 700 more. The worst problems came in 1977, when it took four months to move forward just 40 metres through a geological tangle of sedimentary siltstone and sandstone deposits with slip planes.

The basic tunnelling approach has been first to drill as much as a mile ahead, with the use of small diameter rods, as an initial topography check. Next, a special grout, consisting of cement and liquid glass in roughly equal proportions, is injected up to 70 metres forwards at a pressure of around 1140 psi, a level approximately four times that of the surrounding undersea ground water pressure. This grout solidifies within about five minutes, and excavations are then resumed for a distance of 48 metres. In the trickiest areas near the centre of the tunnel, the full injection process alone has taken up to 20 days, with excavation taking another 10.

Considered as a whole, the advance rate for the tunnel, of approximately 2 km per year, is close to the accepted average for tackling mountainous terrain. Boring machines were used in the initial stages of the project, but conventional min-



ing approaches have been necessary for most of the work because of the complex soil conditions.

The detailed evaluation of the geological strata, facilitated by the pilot bore, has made the completion of the final 2.7 km of the main tunnel a comparatively straightforward business. One point engineers have still not agreed on, however, is how to provide adequate protection against possible tunnel fires.

But since those ambitious days of the early '60s, the plans for a nationwide bullet-train network have had to be curtailed, owing to a string of setbacks, including the oil crises, the plunge into financial catastrophe of the Japanese National Railway (JNR) system (projected fiscal 1983 deficit ¥2,400bn), and by the increasing popularity, and cost-efficient competition, of internal air services. As a result, many commentators have described the tunnel as a white elephant.

These home truths come as a crushing irony when the epic scale of the Seikan tunnel project is considered, but there is at least a plan for a conventional train service to be run through the tunnel upon its completion. Recently some political leaders have revived talk of its possible strategic value.

JNR, which is faced with paying the tunnel's ¥700bn construction costs, might start "car-trains," and perhaps lay fibre-optic cables, as ways of earning revenue from the technological wonder it basically does not want.

As the cheers died down on January 27, one tunneller spoke with emotion of the 1954 ferry-boat disaster in the Tsugaru Strait, which claimed over 1,000 lives. He suggested with irony that it would require only one more such mishap to occur, for people to be reminded of at least one benefit the new tunnel brings.

DISASTER CONTINGENCY PLANNING

Large recovery room set up

BY ELAINE WILLIAMS

TODAY companies are becoming increasingly dependent on computers to run every aspect of their business. This means that when a disaster strikes such as a serious fire they need to get back into operation as quickly as possible.

On March 1 a service will open aimed at getting companies back to full computer operation within hours of such a disaster. Known as the Failsafe Project, it is a joint venture between BL Systems and Atlantic Computer Leasing, one of Europe's largest independent IBM leasing companies.

Around £5m has been invested in an IBM computer equipped centre at Preston in Lancashire where large com-

puter users can duplicate their files and, theoretically, switch over if the main computer at their premises has a major breakdown.

Mr Colin Berthelsen, the computer consultant behind the setting up of Failsafe, says that though a few disaster recovery centres exist, the new venture is the largest of its type in Europe.

The company offers a three-year contract to potential users and costs vary according to the size of the customer's IBM installation. Mr Berthelsen said that about 20 subscribers could be easily catered for at the Preston centre. If the first centre is a success then further ones are planned. More details can be obtained on 01 353 9481.

SATELLITE SCIENCE

Surrey hears a voice in space

BY MAX COMMANDER

UOSAT, the educational satellite built by Surrey University and basically designed for schools and students interested in receiving information from space is now transmitting in English by means of a speech synthesiser.

It is the first time that such a device has been used in the spacecraft which was launched by NASA on October 8, 1981. Transmissions, says Surrey University, can be received anywhere in the world by the use of the simplest amateur radio VHF equipment, but domestic VHF radios are not suitable.

The speech synthesiser is a National Semiconductors "Digital" which speaks in English with a mild American accent. Under the controls from Surrey University primary computer, the satellite is presently giving operational telemetry information — the readings are of about 59 gauges and 45 switches — about the equivalent of an aircraft display panel.

Surrey University points out that it has already published calibration equations so that anyone can listen in and find out, for example, the amount of solar particle radiation, the current supplied by the solar cells or the temperature of the batteries of the primary computer.

The speech transmissions are presently on Saturdays and Sundays, primarily for the benefit of radio amateurs. These are broadcast on 145.825 MHz and can be used by any narrow band VHF receiver.

UOSAT's orbit passes over the poles but in Britain it is above the horizon three or four times each afternoon and in the early morning. These occur at about 96 minute intervals for periods up to 12 minutes.

Details of the orbit times are available on Surrey University's UOSAT information service (0483 61202), but the university is also preparing a wallchart for amateurs and schools. This should be published shortly.

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Batteries

Button cells from Gould Activair

BUTTON CELLS measuring only 0.456 ins diameter with a thickness of 0.210 inch, but able to deliver 0.400 of an ampere hour (400 mAh) have been introduced by Gould Activair.

Using the zinc-air couple this cell, typical of a range of four available, has an open circuit voltage between 1.35 and 1.45 volts and the minimum service life is three years.

The company says that zinc air technology has a number of advantages over other battery systems. For example, it is less expensive than the present day silver and lithium cells, with a far greater energy density and has none of the pollution problems associated with mercury types.

In addition, the output voltage is more constant throughout the lifetime and the unit has an excellent shelf life.

The cells will offer extended life in low current applications such as liquid crystal displays and memory back-up systems. More on 0978 61984.

Waste water treatment

KENNICOTT WASTE Treatment of Wolverhampton has introduced a new process for the treatment of biodegradable waste waters.

Called Megox, the system is said to give substantial savings — in one case reducing the cost of treating effluent from £94,000 a year to £5,500.

The company recommends the system especially for the food processing industries including abattoirs, meat, fruit and vegetable packers and breweries. More on 0992 41121.

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DELCO PRODUCTS
TECHNOLOGY WORLDWIDE

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Italy's ski boot industry has lost market share but one company has bucked the trend. James Buxton reports

How Nordica stays one step ahead

MONTEBELLUNA is an attractive little town 30 miles north of Venice where the northern Italian plain meets the foothills of the Alps. On the outskirts and in the surrounding villages is concentrated almost the entire Italian industry for ski boots, after-ski boots, and other sports shoes.

In the late 1970s Montebelluna (and therefore Italy) is reckoned to have had 70 or 75 per cent of the world market for ski boots. Now, however, it has a much diminished, but still respectable 40 per cent of a market which has itself declined.

Yet, one company dominates Montebelluna and is by far the biggest world producer. Called Nordica, it consistently makes good profits and since the mid-1970s has pushed its share of the world market up from 10 per cent to 26 per cent. In so doing it has broken a pattern familiar to certain sectors of Italian industry.

The Montebelluna area is one of those special centres that have flowered in the past two decades by concentrating on just one or two products. They have no dominating company but consist instead of an interlocking network of medium, small and tiny businesses, right down to the two or three members of a family working in their own kitchen in the "submerged" economy. Whether in knitwear, machine tools or ceramics, these towns are the envy of more mature competitors abroad, because they save costs (avoiding tax and social security contributions) and can raise or lower output very fast.

The classic example of the "Italian model" at work in Montebelluna was the moon-boots boom in the late 1970s when the area was producing about 5m a year of these simple after-ski boots made out of synthetic materials almost entirely in the kitchens and backrooms. No major company was involved in production. The entire output was ordered and marketed by nimble middlemen.

The ski boots industry in Austria and France as well as Italy was almost entirely an artisanal affair in the 1950s and 1960s. The major breakthroughs were the invention of injection moulding of the whole outer boot in the mid-1970s. As the process became more complicated the leading companies in the business in Montebelluna became fewer but bigger, and they gained great advantage in switching to the new production method faster than their foreign rivals. In the second half of the 1970s the Italians dominated the world market. Their sales rose from about 1m in 1970 to more than 4m in 1979.

In Montebelluna there were about a dozen major producers,



An innovative leader

NORDICA began as a small leather shoes and boot maker in the 1930s. But whereas some of the Montebelluna companies still reflect their simple origins, the atmosphere and the language at the big Nordica plant are those of an international company—which is what it is.

Some 90 per cent of its sales are abroad, and its biggest market is the U.S., which accounted last year for 15 per cent of its pre-tax profits, on sales of \$20m. Its second biggest market is Japan.

Total sales last year were only marginally up on 1981, but net profit after tax was more than 10 per cent of sales. The company is still owned by the Vaccari family.

It is the undisputed world leader in ski boots, with its next biggest rival, the Austrian company Koflach, producing 600,000 pairs of boots a year against Nordica's 1.4m, and Salomon of France further behind with 300,000.

Its strengths are its name, its capacity to innovate and its marketing ability. Until 1975 it sold to the U.S. through an importer there. Then for six years, until 1981, it sold through a joint venture with the French ski manufacturer Rossignol. Since then

Nordica has had its own operation in the U.S. with a sales force of 20 people who operate through dealers.

In Japan, where Nordica claims to have 30 per cent of the market in value, the Italian company operates through a single importing company which sells 70 per cent Nordica products.

This season there has been little snow until recently in much of the Alps and in parts of the U.S. For Nordica this means that this year's sales to dealers could be 5 per cent down—since dealers may be left with unsold boots from last year's production. "And we don't expect the market to grow all for five years," says Giovanni Vaccari, the managing director.

Nordica is hardly producing fewer boots than in 1979 (1.4m pairs against 1.45m in 1979) but its factory workforce is down from a peak of 800 to 700. The first robots have been installed to control and feed the machines making the outer boot from moulds. The inner boot, made of soft synthetic material, is mechanically stitched, partly in the factory and partly by about 350 subcontractors who collect the cut pieces every morning.

including Nordica, Dolomite and Caber, the leading companies today. All took advantage of the output system to step up production very quickly. In 1979 the third biggest ski boots producer in Montebelluna was Garment, making half a million boots a year.

Garment, however, doesn't exist as a manufacturing company any more (though its name is still used), and one or two other companies have closed. Caber is producing half the 600,000 pairs of boots it made in 1979. Most of the rest have shed staff and either moved out of ski-boots altogether or are producing at a fairly low level.

Nordica easily predominates, with 1.4m pairs of boots a year and sales of L72.5m (\$52m) last year.

The crash in sales came in 1980 when the second oil crisis combined with a winter of little snow in the Alps and exposed the weakness of the Italian industrial model. "The crisis was foreseeable, but not everyone foresaw it," says Giuseppe Volpato, a professor of econ-

omics who has closely studied the industry. Most of the market consisted of people buying their first pair of plastic boots and ditching their leather ones. These new boots last for years and are only used a few days a year. But most companies planned on the assumption that growth would continue exponentially for ever. Few of them knew much about the market they were supplying.

When the market collapsed by about 20 per cent in 1980, many of the companies were caught under-capitalised and heavily borrowed at interest rates which shot up sharply (good financial management and big margins are essential in the ski-boot industry where sales are only made for six months a year). Volpato claims that several entrepreneurs took their profits out of the business when times were good and put them into property development and luxuries.

Giovanni Caberlotto, who sold Caber to a U.S. company in 1973 but remained its chairman and chief executive until 1979, doesn't fully accept that

the companies were mostly under-capitalised. "But we should have spent more money on improving and developing our products. Everyone thought the good times would go on for ever."

Volpato says: "The Italian model works fine when things are going well, but tends to break down when things go badly. Few of the companies saw the need to go on improving their products when they were already selling well. Several of them neglected to invest much in marketing. When the going got tougher, with the Austrians and French catching up, they badly needed better outlets."

"The artisans and outworkers at home, who were such an advantage when the market was going up, became a liability when it went down. Instead of looking after themselves, some of the bigger companies had to help their suppliers keep going. The suppliers survived, but not necessarily in the ski boot industry, while some of the companies failed."

While Montebelluna was in

crisis, Koflach, the leading Austrian manufacturer, and Salomon, the French ski binding specialist which had decided to go into ski boots, forged ahead. The Italians claim that Austrian companies benefit unfairly from cheap government loans, while Salomon was already a solid company. In Montebelluna only Nordica, with better financial management and marketing, rode through the crisis almost unscathed.

Giovanni Vaccari, managing director and partner-owner of Nordica, is not very sympathetic about his former rivals. They simply didn't perform properly. They should have made a lot more money when the going was good, which would have helped them when things went sour. The fact is that the whole ski equipment industry is rather underdeveloped.

Nordica's growth, on the other hand, was more orderly and well-founded. "For 12 years we have had nothing but excellent results," says Vaccari. "Continually improving our market share. We have consistently invested not just in machinery and factory organisation, but in sales and marketing structures. We can be the price leader and yet be very profitable."

The world ski-boot market has stabilised at about 5.2m pairs a year, from a peak of 6.2m pairs in 1979. "The 1979 sales were inflated because they didn't correspond to actual sales to dealers. You could say that the market was down 10 per cent in real terms since the boom," says Vaccari.

But now, after the shake-out (which badly hit after-ski boots too) the Montebelluna sports shoes industry is beginning to recover again. Caberlotto, who says the ski-boot industry has learnt its lesson, now runs and owns a company called Lotto which makes 1.5m pairs of tennis and jogging shoes in Italy a year. "Despite all the economic difficulties we face here," he says, "I made more money last year than I ever have before, and so did a lot of my friends."

Management selection

Matching by computer

MIKE SMITH used to groan inwardly whenever one of BP International's personnel managers asked him for a shortlist of candidates for a top managerial job.

As head of the company's staff development unit, his job was to do a company-wide search of managers to track the most suitable candidates.

It could have taken him—or rather two of his staff—up to four days to plough through hundreds of files. In the event the exercise was never as thorough as it should have been.

"We used to start at file 'A', give up at 'C' and then resort to gut feel by tapping the company's informal network," he says. "In the end the shortlist consisted largely of the more visible people in the company."

Smith says that although the short-listed candidates were all suitable, the system was not as efficient as it might have been because scores of individuals were never considered.

Today, the same request takes Smith exactly two minutes—thanks to the ubiquitous micro-computer. Instead of 300 sq ft of files containing hundreds of thousands of pieces of paper, Smith now turns to a single keyboard console.

Through it he can get almost instantaneous access to the personal details of more than 1,000 of the oil giant's top managers. Where the system comes into its own is that he can cross-match very quickly any number of job specifications and indi-

viduals.

Thus, he can scan his data base to come up with all those managers whose criteria for an up-coming project in, say, the Middle East might be: age—between 38 and 45; education—an engineering degree; status—highly mobile; languages—working knowledge of Arabic; experience—project manager, preferably in the Middle East.

A recent search where similar specifications were stipulated threw up five potential candidates. If a set of criteria does not produce a suitable choice of individuals, Smith can "fine tune" the specifications—by extending the age-span, for example—for another shortlist very quickly.

The system also has the facility for storing as annual appraisals, company assessments of future grade potential and the individual's next career step and development programme. Because of the sensitivity of such information the system incorporates sophisticated security measures to ensure that only authorised staff can gain access.

In the year that the new system has been in operation Smith has been providing about 15 shortlists a month.

Smith is also using the system for succession planning—he has identified 300 key posts, excluding the top 20 in the company and ensures there is always a list of suitable individuals to fill the job in the event of the sudden death,

resignation or promotion of the current holder.

A computer in the personnel department of large companies is not new, but its application, particularly the careers of top executives, is thought to be highly unusual.

The system was developed by management consultants Cooper and Lybrand and cost £37,000 to instal. Smith estimates this to be much less than the cost of man-hours involved in previous manual searches.

The need for a more sophisticated management development system arose, says Smith, after BP changed its organisational framework two years ago from a divisional structure into eight separate profit centres and two supporting service organisations.

"We had to change our passive, unstructured and informal role, where everything was done manually," he says.

"In most large companies career development and succession planning at top managerial levels is usually two separate and distinct operations," says Smith. "Our computer-based personnel development system brings the two together and provides us with a quick and efficient facility for providing the relevant information to put the right man in the right job at the right time."

"We're not doing anything different except we're doing it more efficiently."

Arnold Kransdorff

'Companies don't listen to their employees'

BRITISH COMPANIES still have a long way to go before they can claim to be good communicators with their workforces.

There is still a hard core of employers who don't bother to give their employees any company information at all. And among those which claim to be doing at least something, most show a marked disinterest in the views of their workers.

These are the main conclusions to emerge from a new study* of employee communications in Britain by Urwick, Orr and Partners, management consultants.

From a sample of more than 400 companies, Urwick, Orr found that 15 per cent gave no information whatsoever to their employees—two years ago the figure was 17 per cent.

This group was included among the 43 per cent of the total sample which said they had not increased the amount of information given regularly to employees about company

performance and plans.

In contrast, just over half the respondents said they had increased the volume of company information given to workers during 1982.

Few companies are good listeners, though. Only 7 per cent said that the main aim of employee communications was a better understanding by management of employees' views.

Urwick Orr comments: "The vast majority of respondents said that telling employees was more important than asking them. In practice, they have been more active at providing information about company performance than they have been in soliciting opinion—through attitude surveys for example."

*Employee Relations Survey 1982, available free from Urwick Management Centre, Baylis House, Stoke Poges Lane, Slough.

A. K.

Business courses

Managing after-sales service. Brussels. March 14-18. Fee: Non-members BFR 50,000; members (AMA/I) BFR 50,000. Details from the Registrar, Management Centre Europe, Avenue des Arts 4, B-1040 Brussels. Tel: 02-219 03 90.

Learning from the Japanese. London. March 24 1983. Fee: £138. Details from Mrs V. A. King, ACM Executive Services, 3 Valletta Close, Chelmsford, Essex CM1 2PT. Tel: 0245 81862.

Investing in management. London. March 24-25 1983. Fee: £74.75. Details from Rebecca Mark, Management Action Programme, Stoner House, Kilmead, London Road, Crawley, West Sussex RH10 2BG. Telephone: 0293 544818/544819.

Inter-personal effectiveness workshop: developing the skills of self-assertion. Brunel. April 13-15 1983. Fee £340 (including follow-up day); £265 (not including follow-up day). Details from the Secretary, Management Programme, Brunel University, Uxbridge, UB8 3PH. Tel: 0895 56461.

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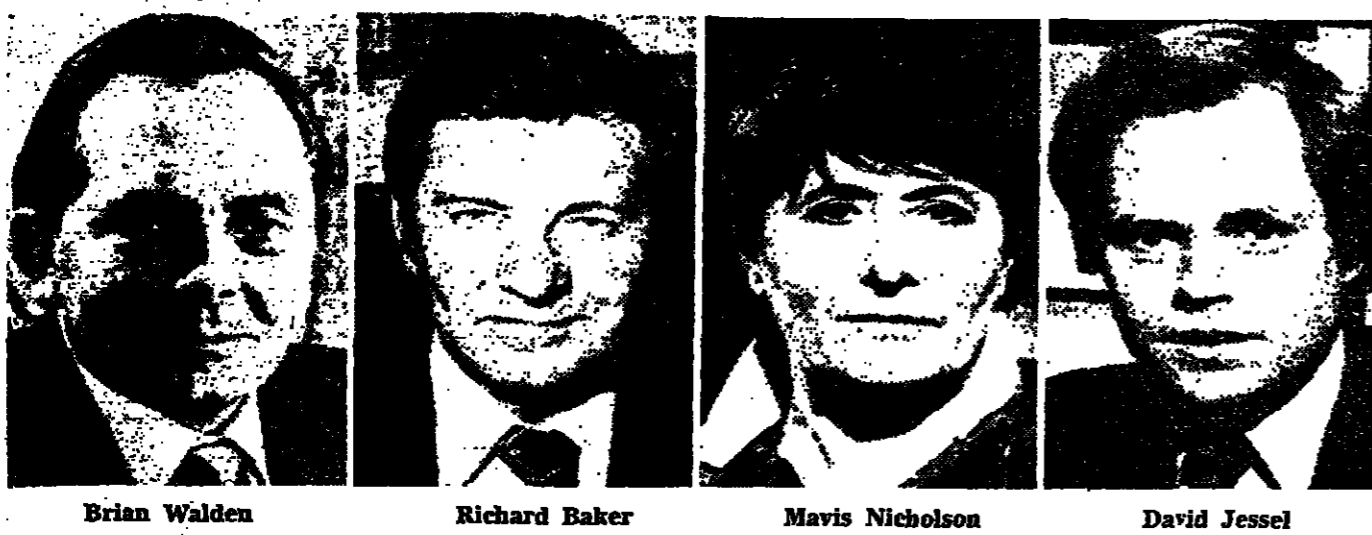
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THE ARTS



Brian Walden

Richard Baker

Mavis Nicholson

David Jessel

Television/Chris Dunkley

Talking heads, speaking minds

What has interested me most about the sudden debate which has broken out over the Conservatives' questioning of the welfare state is the tremendous shock it has caused. The fact that the very idea of such questions comes as a huge surprise is surely an indication that television has not been doing its job properly. (It may be that newspapers are at fault too, if to a smaller extent, but this is, after all, a column of television criticism. It is up to television to supply the Press criticism. It was, as usual, a newspaper which actually broke the current news story.)

There has been no lack of television programmes about various individual aspects of the welfare state. On the contrary, in the past 10 years we have seen a perpetual stream of dramas and documentaries and more recently drama-documentaries about iniquitous council housing policies, or the need for better mental health facilities, or the poor provision for juvenile offenders.

Yet in every case that I can recall—and I am going back at least as far as *Cathy Come Home*—the assumption has been not only that the principle of a welfare state is a good thing but that its expansion is even better. In all the hundreds of programmes about schools, industrial pollution, roads and so on I cannot think of a single one which has suggested even tacitly, let alone explicitly, that the state (you and me in other words) should spend less money on the subject under review.

If any government had ever been witless and credulous enough actually to do what television has suggested, taking up night by night and week by week the subjects championed by successive programmes and pouring out the money necessary to do what has been demanded—expand nursery education, improve sports facilities, enlarge sheltered workshops, whatever the subject was—they would have been penniless within a single television season.

When it comes to preaching about "public" money, television has measureless power and no responsibility. Of course, no television channel has an editor with the duty to impose an editorial policy across the full

width of his output—current affairs, documentaries, drama—to ensure that what is being urged is at least coherent if not wholly practical.

Consequently each individual programme proceeds with its demands, explicit or implicit, for greater expenditure on its particular interest, with three cumulative results: that the philosophy of the welfare state is more and more entrenched because nobody is even thinking of questioning the underlying policy; that the easiest solution to problems is seen as throwing money at them; and that television is projected as the "caring" force in contrast to government which appears to consist of a hard-hearted bunch of self-seeking politicians. I believe this last phenomenon explains much of the hostility between politicians

worth noting that four of these come from the new Channel 4, which also offers *Right To Reply* and *The Friday Alternative*.

Other series, such as *Doctors' Dilemmas* and the law programme *Out of Court* (both BBC2) might seem at first sight to be dealing with subjects which are too highly defined and specific to be considered part of the same category. Yet the discussion on last week's *Out of Court*, presented by David Jessel, about attempts to prevent low-priced computerised conveyancing, which promptly raised the questions (even if they were just as promptly abandoned) about lawyers' closed shops and public interest versus private profit, and the questions of personal morality discussed on *Doctors' Dilemmas* prove that quite common moral conundrums crop up in the most

best when the character of the speakers has been strongest; even though John Berger and Susan Soat started off their discussion about story-telling at different points on parallel sets of rails and took it in turns to advance so that they passed and repassed each other without meeting for the first 45 minutes, they were still worth listening to because they happen to be good speakers.

All this may seem like stating the obvious, yet that appears necessary in view of the apparent growing belief within television not only that "everyone is entitled to an opinion" (which is of course true) but that all opinions are of equal interest to the viewer (which is of course rubbish). Mavis Nicholson, whose programmes for Thames have often impressed me in the past, is at the moment presenting a series called *Predicaments* produced by Carol Jones on Channel 4 which is proving how remarkably uninteresting some talking heads can be.

Doctors' Dilemmas, which is exploiting the bright idea of modifying Brian Lapping's Granada Hypotheticals by enacting the story instead of merely stating it prior to exploring its moral dimensions, would have been more effective if the casting had ensured both more outspoken and more widely varying areas of activity.

No matter how much the subject matter may vary, the most striking thing about these programmes is the similarity in their approach: practically all of them rely largely or wholly on "talking heads." In principle there is nothing whatever wrong with this; indeed, it has long been my contention that there are few things in the world more fascinating than the talking head... depending, of course, upon whose the head is and what the talking is about.

The *Omnibus* discussion on the rights and wrongs of sending the Elgin Marbles back to Athens, chaired by Richard Baker, was fascinating because the participants included Melina Mercouri, Dr David Wilson of the British Museum, and Enoch Powell; all powerful speakers. At it began I began to feel a little bored, believing the programme believing the marbles should be returned, but changed my mind entirely thanks to Melina Mercouri's ludicrously melodramatic exhortations and her claim that the frieze would be put back where it came from—where nobody could see it.

Voices has also been at its

There are few things in the world more fascinating than the talking head... depending, of course, upon whose the head is and what the talking is about?

(who have to make tough choices between deserving causes) and television (which blithely urges greater expenditure on the subject under review).

The main reason why television has behaved in this way for so long seems fairly plain: whereas you can get jolly good pictures of a ramshackle school lavatory or an old lady with a hip-joint operation, it is quite impossible to take a photograph of a political philosophy, let alone a moral argument. Hence the lack, up to now, of any thorough investigation or discussion of the thinking behind the welfare state as a whole. Yet programmes on "difficult" abstract subjects—morality, politics, philosophy—are now being presented with increasing frequency, and it is these that I want to discuss here.

The ostensible subject matter varies widely, from the arts in *Voices* and *Omnibus* to politics in *Saturday Briefing*, *People and Power* and *A Week in Politics* (discussed here on Monday by Peter Riddell), and a religious channel has an editor with the duty to impose an editorial policy across the full

width of his output—current affairs, documentaries, drama—to ensure that what is being urged is at least coherent if not wholly practical.

Voices has also been at its

Bath Festival programme announced

The music of Johannes Brahms, whose 150th anniversary is celebrated this year, featuring strongly in the music programme of this year's Bath Festival.

Announcing the festival programme, Sir William Glock, its director, said "we try

to make every festival as different as possible from the one before."

But he stressed that music will continue to be the dominant section of the festival, which runs from May 27 to June 12. Among overseas visitors will be the Polish

Chamber Orchestra (May 29), virtuoso French pianist Cecil Ousset (May 30) and the American duo Joan Morris and William Bolcom (June 4) who will be exploring the classic American popular song in a series of recitals.

Between 300 and 400 artists will be represented in the festival's Contemporary Art Fair, sponsored by John Mendes. Designed for the public rather than the dealer, the fair will feature some of Linda Kison's drawings of the Falklands war. A new feature of this year's Bath Festival, the 34th, is a series of literary events.

Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

February 18-24

Theatre

LONDON

A Man of the World (Lyceum): Brilliant new play by David Hare, set in a luxury Bombay hotel where a UNESCO conference on world poverty has been convened. Chilly, meticulous production by the author has strong performances from Robham Seth (Nehru in the film Gandhi) as an Indian novelist, Bill Nighy as a journalist and Diana Quick as the actress in the middle of an ideological showdown. (828,2525).

Nelson (Savoy): The funniest play for years in London, now with an improved third act and a top-class replacement cast. Michael Keaney's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (838,6563).

Valery Yek (Astoria): Enjoyable pot-pourri of songs by Lieber and Stoller, evocative of the 1950s and '60s, and coherently performed by a Liverpool quartet of brothers and The Darts. (437,6563).

The Real Thing (Strand): Fascinating, enjoyable new Tom Stoppard play which examines a playwright's attitudes to work, music and love in characteristically well-written, complex vein. A tone of serious levity is well struck in Peter Wood's production and the performances of Roger Rees and Felicity Kendal. (838,2889/4142).

Other Plays (Globe): Triple bill of Harold Pinter plays superbly directed by Peter Hall. Pinter breaks new ground in *A Kind of Alaska*, Judi

Dench outstanding as a woman coming out of coma after 28 years and accelerating from small girl to adult maturity in half an hour. (828,2525).

Triffid (Drama): Enthralling play that sets the battle of the sexes in a wrestling ring. This fringe success has re-opened the embattled City of London venue. (838,5568).

The Pirates of Penzance (Drury Lane): Rotundly vulgar Broadway import that sits Gilbert and Sullivan on a whoope cushion. One or two brilliant set pieces, but is all this strenuous arithmetic camping about really preferable to the prim stasis of the *D'Oyly Carte* tradition? (838,8108).

84 Charing Cross Road (Ambassadors): Moving, unspectacular account of the love affair by correspondence between a New York Anglophile, Helen Hanft, and the owner of a West End bookshop. (838,1171).

Guys and Dolls (Olivier): A first-class revival of this witty musical happily laid out on the open stage, with a whoope cushion. One or two brilliant set pieces, but is all this strenuous arithmetic camping about really preferable to the prim stasis of the *D'Oyly Carte* tradition? (838,8108).

Mickery Theatre, Amsterdam: Slow Fate by Mike Figgis, an unorthodox play featuring music and projection as well as actors.

VIENNA

Vienna's English Theatre (421,260): *Arcturion* and *Old Lace* (Daily except Sun).

Theater an der Wien (579,632): *Anatole* (Daily except Mon).

NEW YORK

The Entertainer (Roundabout 23rd & 8th Ave): William Gaskill's evocative production of the John Osborne chestnut stars an appealingly shuffling and quizzical Nicol Williamson while bringing the era of the Suez crisis to an American audience with Michael Sharp's headline dominated set. An excellent supporting cast of Humphrey Davis as father Billy Rice and Frances Cuka as Archie's long-suffering wife Phoebe. (242,7800).

Amadeus (Broadhurst): David Duker stars as Salieri in the award-bedecked and elegant National Theatre production of Mozart's life. (247,0472).

Agnes of God (Music Box): The fiery trio of Elizabeth Ashley, Geraldine Page and Amanda Plummer enliven a somewhat over-written clash of ideologies. (248,4636).

Joseph and the Amazing Technicolor Dreamcoat (Royal): The first work by Andrew Lloyd-Webber and Tim Rice in a lively and imaginative rendition directed by Tony Tanner. (245,7500).

Crimes of the Heart (Golden): Despite its genial humour, outlandish events and Pulitzer Prize, Beth Henley's bleak story of three Mississippi sisters boils down to a sitcom sensibility full of gags, good acting and frequent phone interruptions. (246,6740).

Gentlemen (Fairbanks): Author Jonathan Reynolds takes advantage of a stunt watching Francis Ford Coppola shooting *Apocalypse Now* to parody the American film industry in this riotous re-creation of a jungle film

set awaiting the end of a seasonal typhoon. (432 W. 42nd). (279,4200).

Nine (46th St): Two dozen women surround Raul Julia in this Tony-award winning musical version of the Fellini film 8½, which like the original celebrates creativity, here as a series of Tommy Tune's exciting scenes. (248,0246).

Plenty (Plymouth): Moving on to Broadway from its Public Theatre opening, Kate Nelligan stars again in the New York production of the play written and directed by David Hare about Europe's transition from war to peace over the last generation. (239,6200).

Top Girls (Public): After the Royal Court production enjoyed a short sold-out run, Caryl Churchill's ruminations on ambition and women reopens with a local cast including film actress Linda Hunt, Kathryn Grody and Sara Botsford, again directed by Max Stafford Clark. (598,7100).

WASHINGTON

She Sings to Conquer (Folger): The resident company adds Lucinda Hatcher Cone as Kate Hardcastle and director Davey Martin Jones for this production of Oliver Goldsmith's enduring comedy about English rural manners and matrimonial ambitions. (546,4000).

Teater (Eisenhower): Kenneth Turner and Brad Davis in Gardner McKay's new tense and twisted murder mystery set on a California tennis court. (254,3670).

Show Boat (Opera House, Kennedy Center): A cast of 50 from the House-

ton Opera company led by Donald O'Connor revives the Kern-Hammerstein musical of 1927 with its brilliant score including songs *Ol Man River*, *Bill and Maude Believ*. (254,3770).

The Imaginary Invalid (Arena Stage): Guthrie Theatre's associate artistic director Garland Wright presents Argan and company with Marc Antoine Charpentier's original musical for Moliere's masterpiece about quackery and hypochondria in the ancient regime. (448,3300).

Pericles (Terrace): The Acting Company, one of America's distinguished travelling regional repertory groups, dusts off Shakespeare's romantic tale of near and feigned death that reunites the royal family of Tyre. (254,9955).

CHICAGO

The Comedy of Errors (Goodman): Wisely played by a splendid champion baton twirler, Sophie Schwab and Luciana by Gina Leishman who has mastered seven musicals, this production is a riotous comedy about nothing but a circus, especially surrounded by the Flying Karamazov Brothers and street musicians and jugglers from across America in Robert Woodruff's lively production. (443,3800).

Duet for One (North Light Rep. 2300 Green Bay, Evanston): Tom Kempinski's slightly veiled story of the painful and frustrating accommodation of a concert artist to growing celebrity stars. Eva Marie Saint. (869,7278).

The Arts in London/Barbican

Michael Coveney

The Barbican Arts Centre has been officially open for almost a year, and the Royal Shakespeare Company is presenting a mini-festival, sponsored by BP, to celebrate the anniversary. There are lunchtime plays, one-day events, Shakespearean films and public discussions. The first "Question Time" on Tuesday night, on the Arts in London, was chaired by John Mortimer. The platform speakers were Trevor Nunn, joint artistic director of the RSC; Tony Banks, chairman of the GLC arts and leisure committee; and Clement Freud, Liberal MP for Ely.

Mr Banks expressed the

admirable view that the arts were not the icing on anyone's cake, but an essential ingredient. He deplored the amount of money spent by the government on arms compared to that spent on the arts. Much of the debate concentrated on the theatre, and Mr Banks pointed out that the GLC had earmarked £8.5m for the theatre in London in 1983/84, a figure exactly double that made available in 1980/81. He called for more public discussion of the arts and an erosion of the "fear of the threshold" that still keeps many people away from live entertainment in the capital.

Clement Freud touched on this latter point, too, in des-

cribing the beastliness of unhelpful box office staff and in calling for Sunday performances. He said that he had never received a letter from a constituent about the arts, which were, politically speaking, a non-issue.

As usual on such occasions, interesting points few around the window (I speak metaphorically; we were, after all, in The Pit). Trevor Nunn seemed ill at ease and less than cogent, but he complained about the public image the RSC had acquired as a winging body before proceeding to wage a highly about the level of funding he receives from the

Arts Council.

The identity of the Arts Minister completely eluded Tony Banks in full flow. Mr Banks put up a most impressive display, especially when calling on the public to be far more demanding of their politicians when it came to the distribution of public money. The money is not theirs but ours, he averred.

Mr Mortimer expressed suspicion of any manifesto that dismissed the value of opera and classical revivals merely because white middle-class taxpayers went to them, but Mr Banks was not rising to this bait. Instead, a white middle-class lady councillor rose like a red herring and choked on it.

The Everyman/Cheltenham

B. A. Young

When *Beside the Sea* comes off at the end of this week, the Everyman Theatre at Cheltenham will be dark for two years.

Dark, but not silent; for the builders are virtually knocking at the door already. The Everyman is a very pretty theatre, built by Frank Matcham in 1891. But it is not in very good condition, and the erection of a new shopping centre behind it seemed a good moment to rebuild. The auditorium will not be changed, except that it will be redecorated, with new seats and new carpets (if the

money goes that far). Otherwise the rebuilding will be confined mostly to the parts that the public does not see.

Not entirely, however. A house next door to the theatre in Regent Street is to come down and give space for a block housing a new box-office, restaurant, offices, dress-circle bar, and—best of all—a rehearsal room big enough for use as a studio theatre if needed. There will be new dressing rooms. At present there are two (not counting the star's dressing-room) which are in a kind of lean-to edifice

which tends to lean from rather than to. Wind comes in at the walls and rain at the ceiling.

In the new building there will be eight dressing-rooms, with new accommodation for costumes and the scene dock. The stage will be deprived of its rake, and the stage machinery will be equipped with counterweights. Above it all will rise a new fly-tower. This will be barely visible from the street, though the frontage will certainly be changed. The new block will be incorporated in an extended frontage similar to

the existing design.

The estimated cost of the work is £1.9m, of which £1.3m has been promised by the Arts Council. This leaves £600,000 to be found by the public.

Sir Ralph Richardson, Cheltenham-born, visited the theatre lately, though he has never played there. "What are you going to do with the rats?" he asked. Presumably for explanation he insisted "You must trap them all, and release them when the new building opens. There are always rats in a theatre."

Barenboim/Festival Hall

David Murray

Daniel Barenboim's recital on Tuesday was his first solo appearance here in some time, and was chiefly interesting on that account. He chose an all-Beethoven programme, but not a taxing one—from the "Pathétique" Sonata to the "Moonlight," by way of the "Pastoral" and the "E-flat" stately of the "Moonlight" from op. 27. The opening bars of the "Pathétique" seized the attention at once, their grave sonorities most thoughtfully rendered; nothing in the rest of the evening held his listeners' ears any grander span, and until the "Moonlight" Sonata there was inordinate coughing from all parts of the hall.

Barenboim preserves his enviable freshness and simplicity. Nothing sounded studied; indeed the friendly offhand manner in which he proceeded through the "Pastoral" rather diminished that deceivably ambitious sonata, allowing its spare structure to seem merely relaxed. Compared to Beethoven, Barenboim likes more pedal, less staccato, fewer

clean rests: the Andante lost something of its pointed rigour, and the Scherzo seemed—astonishingly—to contain not a single joke. The *Rondo* boasted some delicious quiet playing. That was true of the "Moonlight" later, too, though a few dropped stitches in the rhythms of its quicker movements prevented excitement from rising very high.

Granted various happy details, Barenboim gave the "Pathétique" no special stamp. It sounded sincere. The Sonata op. 27 No. 1 was altogether more interesting. The Andante portions of the first movement were broad and insinuatingly gentle, the Allegro outburst in C major almost savage (and rhythmically a bit dishevelled). The Scherzo was peculiarly slow—a long way from Allegro—and even the minuet-like Andante was beautifully curved. Sadly, a helter-skelter Rondo left a smudged final impression: main theme half-swallowed at each recurrence, a Presto coda that seemed to take the pianist unawares.

Das Liebesverbot/Munich

Andrew Clark

Munich is currently saturated with Wagner.

In his first season as Intendant at the Bavarian State Opera, Wolfgang Sawallisch is conducting all 13 of the composer's stage works, mostly in revivals of well-known but still-looking productions by his predecessor, August Everding. The most rewarding performances so far have come in the final showing of Gunter Rennert's *Ring*, which the Frenchman has brought to Munich from the original production presented intact.

The main feature of the cycle, however, is the prominence it gives to Wagner's three early flops. *Die Feen* and *Rienzi* follow in July; *Das Liebesverbot*, his second opera, has just been heard at London's University College in 1983, and a pirate recording exists of a German radio performance conducted by Robert Heger.

Das Liebesverbot—"The Ban on Love"—is loosely based on

case for the work.

Wagner began *Das Liebesverbot* when he was 20, conducting the premiere three years later in 1836 at Magdeburg. Only three people turned up to watch the second performance. Wagner called the score a mixture of "the most beautiful and the most ridiculous" and even the minuet-like Andante was beautifully curved. Sadly, a helter-skelter Rondo left a smudged final impression: main theme half-swallowed at each recurrence, a Presto coda that seemed to take the pianist unawares.

There are passages—some only-sprung duets and trios just before the end—of a German radio performance conducted by Robert Heger.

Das Liebesverbot—"The Ban on Love"—is loosely based on

more than a drop of lumpy Teu-

tonic flavouring, into the mould of Italian opera buffa. Rossini is much in evidence in the light orchestration and scurrying times, and there is a mixture of Italian influences in the large ensembles, and in the self-consciously florid touches decorating the vocal line of the soprano arias. The Germanic influences—matching the unlikely presence of a German regent in Sicily—provide a puritanical contrast, which, in theory, underlines the dramatic conflict with carnival and romance, but in effect makes an uneven impression.

There are passages—some only-sprung duets and trios just before the end—of a German radio performance conducted by Robert Heger.

Das Liebesverbot—"The Ban on Love"—is loosely based on

stageworthy and entertaining,

and there is evidence of Wagner's latent melodic sense, glimpsed in infuriatingly brief samples.

By nature, though, *Das Liebesverbot* remains derivative and unexceptional, and as such, is of little more than passing curiosity value. Ponnelle handles the material on its own terms, playing up the comedy for all it is worth, respecting the score in his movement of principals and virtuosos handling of ensemble. The role of Friedrich demands a more dramatic baritone than Hermann Prey, whose tone is beginning to spread. The most rewarding performances came from Sabine Hass, an Isabella of poetic and real vocal charm, and an extended solo scene for baritone—that indicate a major talent at work. The opera is

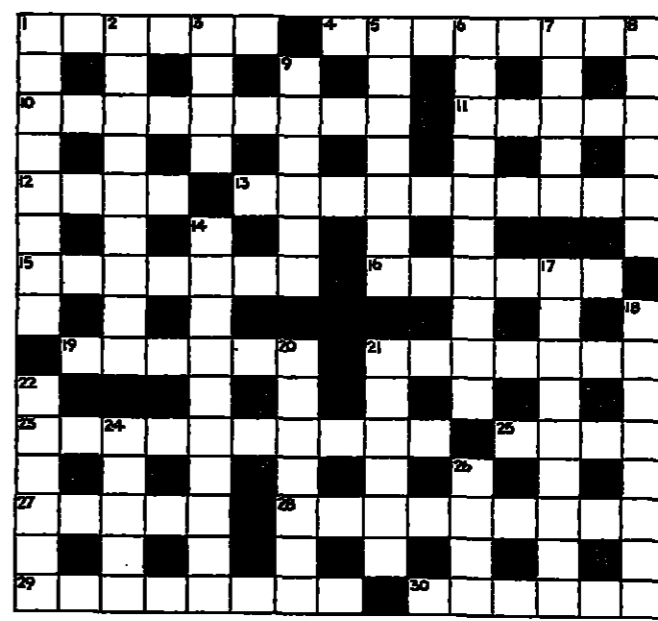
F.T. CROSSWORD PUZZLE No. 5,105

ACROSS

- 1 Bond in a state of flux? (6)
- 4 Troubled peer's SOS for some hot coffee (8)
- 10 To Akhenaten, wife and mummy (9)
- 11 Banter from hothead in common café (5)
- 12 The bay for laundry (4)
- 13 Fantastic turf-dreams for him at work? (4-6)
- 15 & 16 Insured vehicles that went west? (7, 6)
- 19 Zone where one starts to get frozen stiff (8)
- 21 Applaud team (a man short) for so long (7)
- 23 Two-master berating in court? (10)
- 25 Fish from the deep (4)
- 27 Ball one out—plea in court (3)
- 28 Greets sound quality with a drop of the hard stuff (9)
- 29 Outstanding types halfway to the gallery? (4-4)
- 30 Hawaiian dish but classically balanced (6)

DOWN

- 1 The 3 between boards, on the way, such a man? (8)
- 2 Insured person—thrifty sort—provider of help in time of need (4-5)
- 3 Only one listener left and he is in The Lords (4)
- 5 Old saying about pirate hit in Lakeland (7)
- 6 Gert cleans out boxes in the car (10)
- 7 Throng finding inner-Hastings warmer (5)



8 Neat for day-shoe! (6)

9 Historic sort of building featured to one side (6)

14 Car darning G. perhaps? (4-6)

17 They tell of Scottish isle rising to the hills (9)

18 Jasper in scrap? Has to stop overthrowing the rabble (8)

20 Many had teasing desire to be brought down in the main (7)

21 Outspoken. As a consequence—surrounded by police (6)

22 Where walker had a plank put down? (6)

24 Old war-horse city (5)

Solution to Puzzle No. 5,104

ACROSS: 1. BONDAGE, 4. TROUBLE, 10. AKHENATEN, 11. BANTER, 12. BAY, 13. FANTASTIC, 15. WEST, 16. WEST, 19. ZONE, 21. APPLAUD, 23. TWO-MASTER, 25. FISH, 27. BALL, 28. GREETS, 29. OUTSTANDING, 30. HAWAIIAN.

DOWN: 1. THREE, 2. THRIFTY, 3. LORDS, 5. OLD, 6. GERT, 7. THRONG.

FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantime, London PS4. Telex: 8954871
Telephone: 01-248 8000

Wednesday February 23 1983

Lessons of the Dutch disease

THE DUTCH economy suffers in more extreme form most of the ills that are reckoned to be responsible for Western Europe's relatively dismal employment prospects for the rest of the decade. Labour market rigidity, declining real profitability, escalating social spending programmes, reluctance to confront the need for structural adjustment—all are there in large measure.

At the same time the Netherlands offers a particularly interesting model for the British. The Dutch economy is open and endowed with considerable energy resources. And it is employment ahead of the game, in that production of gas, the main energy asset, has already passed its peak. Are there any lessons to be learned from the latest OECD economic survey of the Netherlands?

The so-called Dutch disease involved upward pressure on the exchange rate as the economy became self-sufficient in energy in the 1970s. Production became more energy-intensive, productivity rose, and a centralised system of pay determination ensured that traditional labour-intensive industries outside the energy sector experienced more rapid wage increases than their own productivity performance justified.

Gas revenues

The outcome was that traditional Dutch industry suffered an adverse movement in its terms of trade. The loss of competitiveness caused manufacturing jobs to become scarce and over the longer run the potential of the economy appears not to have been efficiently mobilised. The picture is all too familiar to the British observer.

There are, however, crucial differences. The main difference is that a higher proportion of gas revenues went into public and private consumption than has so far been the case in Britain. Government largesse, supported by the new source of income, permitted those who lost their jobs in traditional sectors and who were unable to find new jobs in the more capital-intensive energy-related sectors to enjoy either high social security benefits or public sector jobs. OECD now

estimates that to stabilise the share of public expenditure in total resources would require a growth rate of some 4.5 per cent at existing benefit rates. Yet real GDP has declined by 1.2 per cent over the past two years.

The Dutch Government rightly concluded long ago that the appropriate remedy for this structural deficit was to shift disposable income from the household to the corporate sector. Its chosen method was an incomes policy. But while pay restraint, reinforced by a currency pegged to the D-mark, held down labour costs in the non-energy sector, it was not enough to offset the effects of higher energy prices on profit margins. Public sector incomes rose too fast, reflecting private sector pay trends through indexation when private sector employment was falling, so much of the benefit of the incomes policy was lost. As the Heath Government discovered in Britain in the early 1970s, indexation and incomes policy make uncomfortable bedfellows.

Familiar trap

The outcome is that since the second oil shock of 1979 this energy rich country has suffered weak demand, low investment and, if hidden unemployment is added, probably the worst unemployment rate in the OECD area. And the Government is caught in a familiar trap where recession is pushing up the public sector deficit faster than ministers can pull it down by chopping expenditure programmes, because of the impact of reduced activity on tax revenues, unemployment benefit and so forth.

Britain's predicament is less extreme because the structure of the economy has been less heavily skewed towards social programmes and North Sea oil revenues have not been dissipated in consumption. Yet a policy of accumulating capital, through encouraging a private sector portfolio outflow, has not prevented excessive exchange rate appreciation and excessive volatility. The Dutch, at least, have enjoyed greater exchange rate stability than the British by establishing a fixed exchange rate with the D-mark.

Troop numbers in central Europe

THE TALKS to limit the deployment of cruise and SS20 nuclear missiles in Europe which are now taking place in Geneva between the U.S. and USSR have received so much publicity that other arms control negotiations of possible equal importance, are being overshadowed.

No one could pretend that the Vienna talks to reduce conventional forces in Europe have the political urgency of the intermediate nuclear force (INF) negotiations in Geneva. There, the question of the deployment of a new generation of U.S. missiles depends on whether or not agreement is reached in the next ten months or less.

Yet the Vienna talks on Mutual and Balanced Force Reductions—dubbed MBFR—are unique in the arms control field in that they embrace 19 countries—12 from NATO and seven from the Warsaw Pact—and are concerned entirely with non-nuclear or conventional forces.

Soviet proposals

The talks are in their tenth year and last week, touching a western draft treaty submitted eight months ago, the Soviet Union tabled proposals which, Moscow claims, could at last break the deadlock. An agreement to reduce and stabilise the numbers of troops deployed by the rival alliances in central Europe would obviously be a prize worth having. But is there hard evidence to suggest that this is now possible?

Or is it more likely, as some western officials are already suggesting, that the deadline is as fast as ever, with the Soviet Union simply seeking to appear, across the broad spectrum of arms control negotiations, as the power most interested in peace?

The MBFR negotiations are among the most complex of any arms talks yet held. One central problem divides the two alliances and on this there is still no movement.

Both sides want to reduce the numbers of troops in central Europe. They even agree on the ultimate numbers each should have—700,000 ground forces, and 200,000 air forces. But they have so far completely failed to agree on how many troops each side now has, as the starting point for reductions. The Warsaw Pact maintains that there is roughly parity, while the West insists that Moscow and its allies have 150-200,000 more

than they say they have. Moscow's new proposals are offered as an attempt to cut through this problem but in reality would do nothing of the sort. The proposals are for reductions in the next year of 3,000 U.S. troops and 20,000 Soviet troops, after which the size of the two forces should be frozen pending negotiations, to a national unverifiable 900,000.

The West would rightly reject this as codifying the imbalance between the two alliances. The Nato countries will no doubt repeat their contention that there must be agreement on the "data" before reductions can be negotiated. The West's own draft treaty, tabled last July, had such a starting point, though it also moved some way to meet Russian concerns.

Positive aspect

However, if the prospects of an MBFR agreement remain very slim, the Russian proposal has one potentially positive aspect. The West has always emphasised and the Reagan Administration has reiterated with great vigour—the critical importance of verification procedures in all arms control agreements. In the MBFR context proper procedures would make it impossible for one side or the other to withdraw troops, as the Soviets did from East Germany in 1978, only to increase them later. The glimmerings of a possible change on verification in the Soviet proposals with their suggestions of border inspection points during the initial withdrawals and unspecified verification for the longer term reductions. These ideas are mirrored in similar if equally vague suggestions which Moscow recently has made in other arms control forums, notably those involving chemical weapons and the banning of nuclear tests.

For the time being, these concessions are apparent, not real. Overall, it is difficult to avoid the conclusion that Russia's MBFR proposals—like those it has made at the INF talks in Geneva—are still primarily designed to play to the gallery of western public opinion. But however faint they are, the signs of greater Soviet readiness to be flexible on the crucial matter of verification need to be explored as vigorously as possible by the west, for they could be the key to progress across the whole spectrum of arms control.

THE NOTION that Japan is on the verge of a post-industrial era may seem distinctly odd at a time when the strength of Japanese manufacturing industry, especially in the high-technology sectors, is causing so many political and trade problems in the rest of the world. Yet the idea has strong adherents within Japan and forms part of the anguished debate now taking place about the future direction of the Japanese economy.

Why should a country which enjoys extremely low rates of inflation and unemployment, while yet retaining a modest GNP growth rate, be tearing its heart out over the question of where it is likely to go in the next few years? The short answer is that Japan's ruling elite of bureaucrats, politicians and senior businessmen is less confident—as well as less unanimous—about the economy than at any time in the past few years.

One obvious cause for concern has been the fact that GNP performance—although not negligible—has been diverging sharply from the Government blueprint for at least the past 18 months. A second worry stems from the fact that Japanese manufacturing industry, despite its enviable reputation for high productivity and imaginative management, appears to be losing its edge.

The official industrial production index showed a small year-to-year fall at the end of 1982 after moving sideways for most of the year. The stagnation of industrial output, coupled with a probable fall in capital investment by industry during 1983, reflects the fact that for the first time in nearly a decade Japan faces both slack domestic demand and overseas markets that are, to put it mildly, unresponsive to Japanese exports. The problem is what, if anything, to do about it.

The conventional view about how to cope with Japan's sudden loss of growth (a view that is held at the Ministry of International Trade and Industry and the Economic Planning Agency, among other places) starts out from the assumption that industry holds the key to the nation's strength.

It is argued that, if full or reasonably full employment is to be provided over the next few years, industry must be encouraged to resume its growth. Tax privileges for medium and smaller enterprises, which are held to possess much of the creative energy needed for the next round of Japanese industrial expansion, as well as bigger public works budgets are considered by the expansionists to be the measures best calculated to put industry back on its feet after its depressing experiences of 1982.

MITI and the EPA would naturally also like to see cuts in Japan's current fairly high real interest rates, while conceding that any move towards cheaper money would have to take account of a possible impact on the yen exchange rate.

The anti-growth school (if

that is not too harsh a word for it) starts out from the seemingly negative position that Japan cannot afford to give industry the tax breaks that would be needed to get it back on the road, given the existence of an accumulated public sector deficit that now equals rather more than one third of GNP.

The argument that there simply is not any available cash to make the economy grow has some obvious holes in it, one being that, while the Government itself is clearly strapped for cash, Japan's national savings ratio is still among the highest in the world. Because of this rather obvious deficiency, the ingenious bureaucrats at the Ministry of Finance (MOF) have come up with another line of reasoning. An MOF study group, which began work last autumn with a view to making a final report in the early summer, is investigating the thesis that industry may have ceased to be the "leading sector" of the economy and could thus not be the right sector to focus on, in any future discussions on macroeconomic policy.

The view that Japanese industry may not be able to grow so fast in future as it has done

JAPAN'S new prime minister Mr Yasuhiro Nakasone, has made a reputation for himself as a man who positively enjoys grasping the nettles from which his predecessor Mr Zenko Suzuki shrank during two years in office. Since taking over last November, Mr Nakasone has sorted out Japan's relations with South Korea, introduced the much-disputed trade liberalisation package which was brought in by any Japanese Government since the start of the current bout of trade tensions between

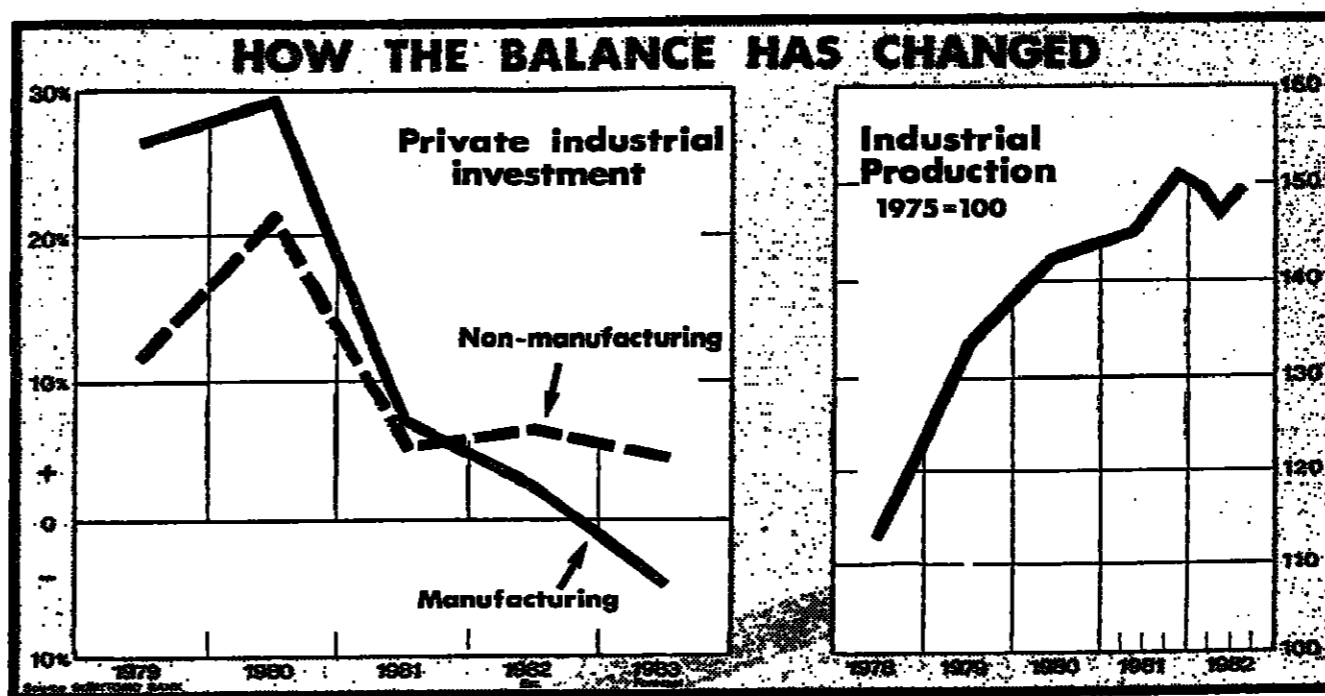
Japan and the West and convinced a sceptical President Reagan that Japan means business on the subject of defence. One nettle that Mr Nakasone has yet to grasp, however, is the peculiarly uncomfortable one of what attitude to take up towards Japan's domestic economy. Mr Nakasone inherited an economy that was growing at less than 3 per cent per year and also took on a mass of apparently unachievable commitments—such as Mr Suzuki's pledge to bring Japan's massive budget deficit

under control by 1984 without any increase in taxation. That pledge has been disavowed and a nuance of doubt now exists about whether Japan can continue indefinitely with a tax burden several percentages points lighter than that of any other major industrial nation. But Mr Nakasone has not revealed whether he agrees with the growing number of Japanese businessmen who think that Japan has no alternative but to accept a significantly lower growth rate in the 1980s than it achieved in the 1970s.

ECONOMIC GROWTH

Japan agonises about the future

By Charles Smith, Far East Editor, in Tokyo



WHERE JOBS HAVE COME FROM

Net increase in employment in Japanese industry from same month of previous year

	Manufacturing '000	Services '000	Total '000
1982			
May	-20	+360	+340
June	-40	+320	+280
July	-190	+540	+350
August	-120	+550	+430
September	+70	+400	+470
October	+140	+540	+680

* Total includes other sectors.

In the past stems not only from the depressing industrial production statistics of the past few months but also from what appears to be fairly serious structural problems within industry itself. Japanese industry divides nearly into a highly competitive fast-growing "processing" sector—whose orientation towards overseas markets has become increasingly marked in the past few years and a deficit-ridden basic materials industry sector which has shown negative growth combined with heavy

losses—and which now badly needs to be cut even further.

The decline of the materials industries and the rapid progress of the processing industries towards world supremacy in the late 1970s gave Japan its much vaunted position as the industrial nation experiencing the world's fastest transition away from "basic" industries towards highly sophisticated and high value added manufacturing sectors.

The self-same process, however, meant that Japan was be-

coming ever more vulnerable to a backlash by Western nations against its supremacy in a few advanced industrial sectors. It would seem to be the view of MOF that a backlash has now occurred. The significant decline in 1983 production figures for a wide range of industries stretching from cars and machine tools to audio and television amply bears out the view that some—though certainly not all—of Japan's former high-flying industries have been effectively grounded.

But the MOF analysis of what has been happening to the structure of Japanese industry during the past two years does not end on this rather depressing note. It continues with the uplifting message that Japan is on the verge of experiencing a new "post-industrial era" in which service industries, rather than manufacturing will be the sector to watch.

The evidence cited by finance bureaucrats for the new-found importance of the service sector is neither as comprehensive nor (in some cases) as new as might be expected from a major economic ministry attempting to present a case to its peers on

the need for a change in economic policy priorities. MOF bureaucrats start by citing the fact that Japan's tertiary (or service) sector taken as a whole increased its share of total employment from 35 per cent in 1965 to just under 55 per cent in 1980 while in national income terms the sector moved from 35 to 54 per cent. MOF has no figures for the significance of the tertiary sector later than in 1980, but it has taken pains to collect a variety of evidence suggesting that demand for the output of Japan's service industries may have boomed (while industry was stagnating) during 1982.

One of the more striking pointers in this direction is the fact that out of a net increase in industrial employment of 730,000 jobs in the 12 months ending last October no fewer than 540,000 went to services while only 140,000 were in manufacturing industries. MOF points to the emergence of an unprecedented gap between the expansion of the Bank of Japan's note circulation normally taken as the best indication of how consumer spending is rising and the far slower rate of increase in department stores sales, as another piece of evidence that demand for services took off sharply in 1982.

One problem about services, says MOF, is that the myriads of small Japanese companies involved in activities ranging from computer software houses to home security services or leasing are unlikely to be registered with trade associations and therefore exist outside the area of Japan's economy that can be effectively monitored by the bureaucrats.

Japan's largest service industry—leasing—recorded a turnover of ¥2,000bn (£8,330bn) in 1982 and a growth rate of more than 20 per cent from the previous year's level. This, however, was only a tenth of the value of sales by the steel industry, for many years the largest industry in Japan, but in the recent past one of the most recession-bound sectors of the nation's economy.

If the Ministry of Finance is right in claiming that Japan's service economy took off last year, while its manufacturing industries continued to stagnate, two intriguing conclusions would seem to follow. One is that Japan's industrial production index no longer constitutes the infallible guide to how the economy as a whole is doing that MITI bureaucrats (and many other independent observers) have taken it to be in the past. The other is that Keynesianism in the sense of pumping government money into the manufacturing sector in order to create employment and demand—may have ceased to be the right means of stimulating Japanese growth.

MOF bureaucrats appear to have taken a certain glee in announcing the death of Keynes (in spite of the fact that the Ministry's nine-month programme of study into structural changes in the economy is still only half completed). What they have yet to suggest is who will come after him.

The nettle Nakasone has yet to grasp

JAPAN'S new prime minister Mr Yasuhiro Nakasone, has made a reputation for himself as a man who positively enjoys grasping the nettles from which his predecessor Mr Zenko Suzuki shrank during two years in office. Since taking over last November, Mr Nakasone has sorted out Japan's relations with South Korea, introduced the much-disputed trade liberalisation package which was brought in by any Japanese Government since the start of the current bout of trade tensions between

Japan and the West and convinced a sceptical President Reagan that Japan means business on the subject of defence. One nettle that Mr Nakasone has yet to grasp, however, is the peculiarly uncomfortable one of what attitude to take up towards Japan's domestic economy. Mr Nakasone inherited an economy that was growing at less than 3 per cent per year and also took on a mass of apparently unachievable commitments—such as Mr Suzuki's pledge to bring Japan's massive budget deficit

under control by 1984 without any increase in taxation. That pledge has been disavowed and a nuance of doubt now exists about whether Japan can continue indefinitely with a tax burden several percentages points lighter than that of any other major industrial nation. But Mr Nakasone has not revealed whether he agrees with the growing number of Japanese businessmen who think that Japan has no alternative but to accept a significantly lower growth rate in the 1980s than it achieved in the 1970s.



Men & Matters

Burdus returns

Anyone who wants to be successful should work for an expanding company. Ann Burdus, one of the largest and longest-established American research companies, National Family Opinion.

Burdus, with her background, says chairman Bernard Audley, will bring a fresh perspective to the further overseas push for which AFB has just raised another £14.5m.

In the 16-horse Bermondsey by-election race (polling tomorrow) John O'Grady the Real Bermondsey Labour candidate has brought a little colour to the streets of that drab constituency in London's dockland.

He is conducting his campaign from a dray drawn by two fine Shire horses.

The gimmick was dreamed up by a real Bermondsey born-and-bred entrepreneur, Charles Robson, whose father started a haulage business in 1902.

Robson now has a fleet of some 40 diesel trucks but, partly out of sentiment, still has 20 working horses used for local jobs, parades, and special events.

Perhaps typifying the spirit of Bermondsey can he tell me "I've always kept my nose out of politics."

So why did he lend his Shires and drays? "I want to keep that man Tatchell (Labour candidate) out."

With that simple objective in mind Robson has also offered to equip several of the other candidates with horse-drawn transport. All except O'Grady have refused.

Could it be they felt the horse and cart image not exactly right for aspiring Parliamentarians?

Scottish seal Williams & Glyn's librarian Thelma Palmer went down into the bank vaults in the City to check an item in the archives—and emerged with 2.25 kilos of finely engraved solid silver.

It was the last of Queen Victoria's seals used by the Scottish Exchequer in 1856 and which, according to the records, was sent to Home Secretary Sir George Lewis in 1860 to be defaced or disposed of.

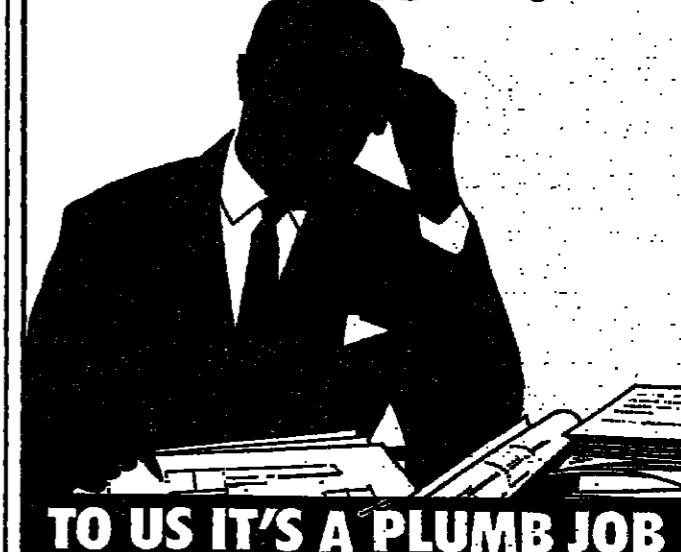
How it ended up in a locked box in Williams & Glyn's remains a mystery, though one theory suggests it may have been transferred there with other archives from Child's Bank.

Engraved by Benjamin Wyon, the seal depicts Victoria in coronation robes flanked by the figures of Justice and Religion. The reverse shows the Royal arms. A tinsel background represents the chequered cloth (hence "exchequer" that was used in medieval times as a form of shabaz for working out the royal accounts).

Williams & Glyn's chairman Sir George Kenyon has now handed the seal over to George Younger, Secretary for Scotland, who in turn has passed it to the Museum of Scottish Antiquities in Edinburgh.

Fringe benefits If you have not heard of the Ecology Building Society that is hardly surprising. The organisation is nothing if not self-effacing. It is not recognised by the Building Societies Association, is not allowed to advertise, and has a £400,000 portfolio of the sort of assets which more conventional societies might worry over.

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Observer

LABOUR AT BERMONDSEY

How not to win an election

By Margaret van Hattem, Political Correspondent

MR PETER TATCHELL may yet hold Bermondsey for Labour in tomorrow's by-election. If he does, he will surprise none more than his own party which seems to have more or less conceded defeat three days before the polls open.

Barely a week ago it seemed impossible that even the much vilified Mr Tatchell could lose. Today Labour MPs across the water at Westminster are regarding themselves that Bermondsey is a London phenomenon unrelated to the rest of the country and consoling themselves with the hope that defeat may frighten the party into unity.

The turning point was undoubtedly last week's NOP poll published in the Daily Mail which put the Liberal candidate Mr Simon Hughes a surprisingly close second to Mr Tatchell. From the Liberal point of view, the poll could not have come at a better time. It ensured that Liberal/Alliance supporters would flood the constituency in a last minute wave of confident enthusiasm, which might have been hard to sustain for more than a week.

But the real question in this by-election is not why the Liberals are benefiting from Labour's confusion, but rather how Labour has come to the brink of losing one of its safest seats.

If defeated Mr Tatchell will no doubt blame the media, and many will think this justified. Labour claims that there has been a concerted hate campaign in the Tory Press have been borne out daily by much of the election coverage, such as the extraordinary promises given by the Daily Mail last Monday to allegations that Mr Tatchell was being controlled by the Militant Tendency. So virulent has been the anti-Tatchell reporting that some journalists have expressed disquiet at their own newspaper.

But the Left is apt to overestimate the power of the Press and even Labour MPs are among the first to suggest that in Bermondsey the party could have been running a demonstration of how not to fight an election.

To begin with there was the selection of Mr Tatchell, young, radical and idealistic, he might have done perfectly well in a general election in a less safe seat. But to the elderly working



Mr Peter Tatchell at a public meeting on Monday evening

class council tenants who constitute Labour's power base in Bermondsey he was immediately suspect. While they might in time have overlooked his left-wing views, many could never have overlooked his support for the Gay Rights campaign and his refusal, when he was living in Australia, to fight in Vietnam in the 1960s.

On the morning of the election, the Labour leader, Mr Michael Foot, made him a national figure overnight. The ensuing struggle over his endorsement between the Bermondsey party and the National Executive guaranteed that the by-election campaign would be dominated by the one issue on which Labour was most vulnerable — the personality of Mr Tatchell.

The continuing strain between the Bermondsey party and the National Executive erupted at the start of the campaign in a farcical row over the campaign leaflets which the local party officers defiantly insisted on having printed by the Militant Tendency, and which the National Executive insisted on confiscating.

The NEC drove the point home by arranging to hold their crucial meeting with the Militant editorial board who are expected to be expelled from the party on the eve of polling day. And while members of the National Executive and shadow Cabinet have dutifully

appeared at morning Press conferences and evening rallies there has been a lack of conviction, a work-to-rule feeling behind their performance.

Even the Labour far Left have let Mr Tatchell down. The public row over proposals by left wingers on the Greater London Council to subsidise the Troops Out Movement to the tune of £50,000 in contravention of party policy was efficiently orchestrated by the Social Democrats. But Labour's timing of a G.L.C. committee meeting to discuss the proposals two days before polling day could hardly have been more damaging. That the proposal was later withdrawn came too late to defuse the row.

It is still entirely possible that Mr Tatchell will win. He has been campaigning energetically on the housing estates where his appeal to tenants to "come and give Maggie Thatcher the shock of her life" seems to go down well enough. Those who meet him often say afterwards that he is "not half as bad as the things you read about him".

But unfortunately Mr Tatchell there seem to be thousands who have not met him and who say they would not vote for him at any price. Labour canvassers in Bermondsey last weekend were appalled by the vehemence of the anti-Tatchell sentiment in estates which have always been solid Labour.

Given the high number of

elderly voters, the cold weather, the hostility to Labour among people who have never voted for any other party and the habitual apathy of the Bermondsey electorate, the turnout tomorrow could be well below 50 per cent. So the final result may be very close indeed with much depending on the relative efficiency of Labour and Liberals in ferrying their supporters to the polls.

Much could also depend on how support holds up for Mr John O'Grady the "Real" Labour candidate supported by the former Labour MP Mr Bob Mellish who has represented Bermondsey for the last 30 years. At no stage did Mr O'Grady look like a winner. But his 14 years as leader of the Southwark Council have given him a firm grip on the local scene. He also has substantial following among some of the older residents who remember what Bermondsey was like before the tower blocks were built and think that Mr O'Grady and Mr Mellish did not do such a bad job after all.

Mr O'Grady has run a rough and abusive campaign. But it has also been a tired campaign and has run out of steam. The main Labour fear at this stage is that his support may collapse into a Liberal vote sufficient to tip the balance against them.

Mr Simon Hughes, a 31-year-old lawyer is articulate, intelligent, moderate and in his outward appearance utterly unremarkable. As a Labour candidate he would have been ideal for the seat. As a Liberal he will be doing well to win and amazingly well to hold the seat in a General Election.

At this stage, a win would be a good result for Mr Tatchell personally but almost any result will be a bad result for Labour. The party looks set for a prolonged period of reevaluation which is unlikely to affect Mr Foot's position in the short term, but cannot help him in the longer term.

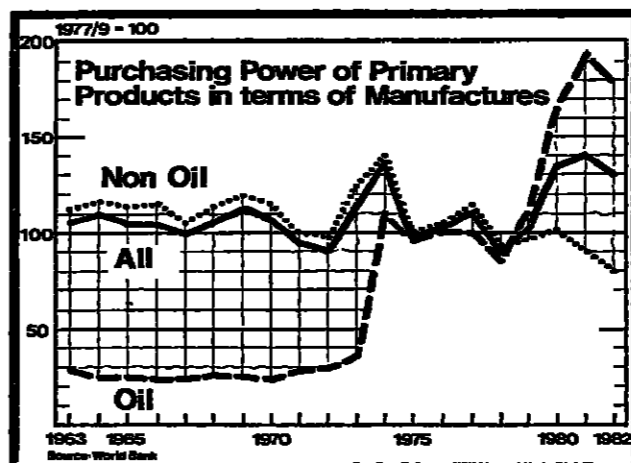
No one can really blame Mr Foot for Mr Tatchell's performance. He was, after all, the first to say openly that he would be an unsuitable candidate. But the fact that Labour could even come close to losing one of its safest seats at a time when there are more than 3m unemployed says something about the burden of the steep rise in the real price of oil.

THE EXTENT to which, and the manner in which, oil prices have affected output and employment in the industrial countries over the past decade is not generally appreciated: as a consequence, the present downward pressure on real and nominal oil prices is probably underestimated.

The chart shows the behaviour of real oil prices (i.e. the purchasing power of oil in terms of manufactured goods, in dollars) since the early 1960s. The massive rise in 1973-74 and again in 1979-80 stand out, as a result of which by 1981, the real purchasing power of oil in terms of manufactured goods was some 74 times what it had been in 1963. Real non-oil primary product prices (again in terms of manufactured goods) which had shown a slight downward trend in the previous decade, also rose strongly in 1973 as a result of a strong but short-lived boom in the industrial countries; but with a sharp check to economic activity and growth in the mid-1970s, real non-oil primary product prices began to fall, so that by 1982, they were some 40 per cent below their 1974 peak, and 25 per cent below even their early 1960s level. Evidently, non-oil primary producing countries have been a major victim of the rise in oil price and slowdown in economic activity in the 1970s.

As a result of these price movements, the terms of trade of manufacturing industry in terms of a weighted average of prices initially worsened by 50 per cent in the two years 1972-74. Such a worsening implied a fall in the net value added and claimable by labour in 1977-78 which increased the demand for oil; but perhaps more important was fear of further unrest and strife in the Middle East associated with the usurping of the Shah of Iran; massive stockpiling of oil was provoked. The consequence for the rest of the world was severe. The worsening in manufacturing industry's terms of trade by something like 40 per cent, reversing the improvement which had taken place between 1975 and 1978, imposed further downward pressure on profits. The rate of profit on capital fell sharply in many countries, while the share of wages in manufacturing industry rose. Not surprisingly, unemployment in industrial countries rose. Naturally, the squeeze on manufacturing profits would have been even greater if non-oil primary producers had not borne in the form of worsening terms of trade much of the burden of the steep rise in the real price of oil.

Accelerating inflation in the industrial countries after 1974 led to improvement in manufacturing industry's terms of trade; by 1978 they had almost returned to their pre-1974 level. However, the sharp fall in the real price of oil in 1978 was



Martyr Barnes

THE WORLD ECONOMY
Why oil prices must fall more

By Geoffrey Maynard

reversed in 1979-80 when the nominal price of oil more than doubled. In part, this was induced by faster inflation and a pick-up in OECD activity in 1977-78 which increased the demand for oil; but perhaps more important was fear of further unrest and strife in the Middle East associated with the usurping of the Shah of Iran; massive stockpiling of oil was provoked. The consequence for the rest of the world was severe. The worsening in manufacturing industry's terms of trade by something like 40 per cent, reversing the improvement which had taken place between 1975 and 1978, imposed further downward pressure on profits. The rate of profit on capital fell sharply in many countries, while the share of wages in manufacturing industry rose. Not surprisingly, unemployment in industrial countries rose. Naturally, the squeeze on manufacturing profits would have been even greater if non-oil primary producers had not borne in the form of worsening terms of trade much of the burden of the steep rise in the real price of oil.

The 1979 rise in the price of oil presented the governments of the industrial countries with an acute policy dilemma. Real oil prices could probably be pulled down by an acceleration of inflation in the industrial

countries as had happened in 1975-78; but inflation in most countries was already at a high level following the 1973/74 hike in oil prices; moreover, it was not at all certain that a policy of permitting faster inflation would not lead at some stage to yet a third substantial rise in the nominal price of oil. In the event, most governments chose to fight inflation through tighter monetary policies. The shift in monetary policy in the U.S. was particularly marked, and resulted in a strong appreciation of the U.S. dollar. Thus, in the case of Europe and Japan, the rise in the price of oil was exacerbated.

Opec determination to keep up the nominal price of oil, and industrial countries' determination to bring down inflation have combined to slow down the necessary and inevitable adjustment to the real price of oil; in this sense there has been a short-run trade-off between inflation and unemployment in the industrial countries. But it is evident that some correction to the real price of oil is urgently necessary. Without it, profits of manufacturing industry will remain depressed and investment consequently low. It is difficult to estimate in any precise way how much the price of oil should fall, but at a mini-

mum we probably need to see the terms of trade of manufacturing industry return to the level ruling in the mid 1970s. Given that some recovery of non-oil primary producers' terms of trade is necessary, a return to real oil prices of five years ago also seems necessary, implying a fall of around 35 to 40 per cent. How can this be brought about?

Inflation in the U.S. is unlikely to exceed 5 per cent in 1983, so that if fall in the nominal price of oil is inescapable. Indeed, to return to 1975-1977 real oil prices allowing for some inflation in the U.S. in 1983, requires that the nominal price of oil should fall by at least one third. A \$24 a barrel price of oil would therefore be very welcome to the rest of the world. European countries might also benefit further by appreciation of their currencies against the dollar.

A \$24 price would still leave the price of oil in terms of manufactured goods at least four times higher than it was in 1963. Moreover the terms of trade of manufacturing industry would still be about 15 to 20 per cent worse than at the end of the 1960s, so if profits are to recover to earlier levels, own product real wages in industrial countries will still have to show some fall as compared with then (or productivity rise), if employment is to recover.

While the need for a substantial fall in the nominal price of oil is probably accepted by many major oil producers, there is fear that any move on their part to encourage such a fall will lead to a precipitate decline in prices to levels which would bankrupt the new higher cost oil producers, and would be unsustainable in the long run. There is further fear that such a move would create a major crisis for the world's banking system which has large outstanding loans to high cost producers like Mexico and Nigeria. Unfortunately, there is no easy way out for the world economy. The relative prices of oil and non-oil commodities, and the relative returns to labour and capital have become so distorted that necessary corrections are bound to impose high short-term costs at various parts of the economy. In the short run, the international financial system will come under increasing strain. Even so, it must be remembered that the problems of the financial system are fundamentally due to the severe recession affecting the world economy. Thus, in so far as a fall in the price of oil is necessary for recovery in world economic activity, it will also contribute to the longer-term health of the financial system.

Professor G. W. Maynard is economic advisor to Chase Manhattan Bank in London and Visiting Professor of Economics, University of Reading.

Letters to the Editor

Parliament proposes and the Revenue disposes

From Mr J. Emmerson

Sir—The letters from Mr H. Wiggin (February 2 and 13) deal with one particular instance where the Revenue may be regarded by many as having acted improperly. It is but one example, however, of the attitude increasingly adopted by certain sections of the Revenue that they are a law unto themselves and entitled, by executive action, to frustrate the intentions of both Parliament and the courts if those intentions do not meet with Revenue approval.

I know that many members of the legal and accountancy professions have experienced in recent years the tendency for the Revenue to deal with any contentious matters by telephone, sometimes rather aggressively and not always accurately, instead of committing themselves in writing. Some also feel that they can no longer rely on verbal assurances given by the Revenue in

the way that they could in the past.

There is also increasing evidence that the power given by access to unlimited public funds is being used in a manner which many would regard as unfair if not unscrupulous. The threat of costly litigation is used to avoid any discussion of the merits and where a large number of different cases all hinge on the same technical points, the suggestion that one of them should be treated as a "test case" is frequently rejected. Even cases which have already been litigated in some instances as far as the House of Lords, are apparently not being accepted by the Revenue as decisive of other cases on facts which are almost identical in every material respect.

This development is a serious one for two main reasons which have nothing to do with Justice's view (February 14) as to the reasonableness or

otherwise of the decision in *Leedale v Lewis*. Firstly, the constitutional implications arising from a branch of the executive apparently no longer subject in practice to the normal Parliamentary and judicial controls and secondly, and perhaps more serious, the resulting breakdown in the relationship of confidence between the Revenue and taxpayers or their professional advisers on which the effective operation of our tax system ultimately depends.

What many practitioners feel anxious about is whether the activities of the Revenue in this respect represent deliberate policy decisions, taken at a responsible level, or reflect the personal prejudices and attitudes of relatively junior staff. The impression given, in all too many instances, is that the latter is the case.

J. C. Emmerson
3, Albany Courtyard,
Piccadilly, W1.

But what of the borrowers?

From Mr E. Henbrey

Sir—It has been reported (February 15) that the Financial Secretary to Her Majesty's Treasury recently told a City audience that consideration of the index-linked taxation of interest is now high on the Government's list of priorities.

What a lovely thought for lenders! But what of the borrowers? The debate on the tax treatment of deep discounted stock demonstrates the Government's predilection for symmetry. How will corporate treasurers, mortgage borrowers, et al, face up to the limitation of deductibility of interest in the real interest element in their total interest outgoing?

E. J. Henbrey

40 Corringway,
Ealing, W5.

Inflexible regional industrial policy

From the Chairman, Association of District Councils

Sir—It was an interesting coincidence that the article by Hubert Scholes (February 9) questioning the present regional aid system should appear on the same day that you reported our new policy paper about the economic and social problems of urban areas. Our view has long been that UK regional industrial policy is too inflexible and has failed to keep up with the rapidly changing employment situation which has created severe unemployment "blackspots" in a number of areas outside the assisted regions.

Hubert Scholes rightly casts doubt on the fairness and effectiveness of the "blanket" regional approach and calls for help and support to small businesses to be given at local community level where the needs and problems are.

District councils are already responding to local needs and opportunities with many new initiatives which are flexible, innovative and imaginative. They are working with local business and industry to encourage small firms to start up and grow, and there are already about 85 local enterprise agencies with some 60 more in the pipeline. Surely initiatives by local communities responding sensitively to diverse local needs deserve support and are more likely to succeed than indiscriminate regional aid.

(Councilor) Ian S. McCallum,
Association of District Councils,
9, Buckingham Gate, SW1.

Public scrutiny of local authorities

From Mr K. Holland

Sir—On February 4 you kindly published a letter of mine on the subject of public scrutiny of local authorities. Because of the vagaries of deliveries of English newspapers to this remote locality I have not been able to follow up every issue since. On February 15, however, Young records the difficulties he found when trying to impose scrutiny on his own authority.

Whether the Scottish authorities are more co-operative or my approach was more probing I have been able to obtain considerable detail on comparative salary structures.

Strathclyde Regional Council's chief executive has a salary of over £35,000 a year and his seven deputies are paid over £30,000 per annum each. The annual budget is slightly less than £1.5m, of which £75,250 is central government's rate support grant.

H.M. Customs and Excise had only four people receiving annual salaries over £30,000 a year in 1981-82 and collected revenue of just over £22m. At the inland Revenue, which collected £25.5m in direct taxes, there was just one person on over £30,000 a year.

In other words these two government departments, both with rapidly growing revenue responsibilities, manage to control their departments with no

more than five persons at this level of pay while Strathclyde, with a much smaller budget and a smaller area of country to administer, finds it necessary to have no fewer than eight executives at this price.

I fear that, no matter how well-intentioned locally elected councillors and paid executives may be, the two-tier system has a built-in empire-building potential.

I would prompt any ratepayers to persist in their inquiries. Local authorities are required to publish annual abstracts of their accounts and anyone is entitled to see these and ask questions about them. Local authorities are public authorities, their staffs are public servants and they exist on public money. They should not be allowed to forget this.

K. H. Holland,
See Whins,
Fort Argyll Road,
Trench Point, Campbelltown,
Argyll.

Putting a price on an issue

From Mr A. Nelson

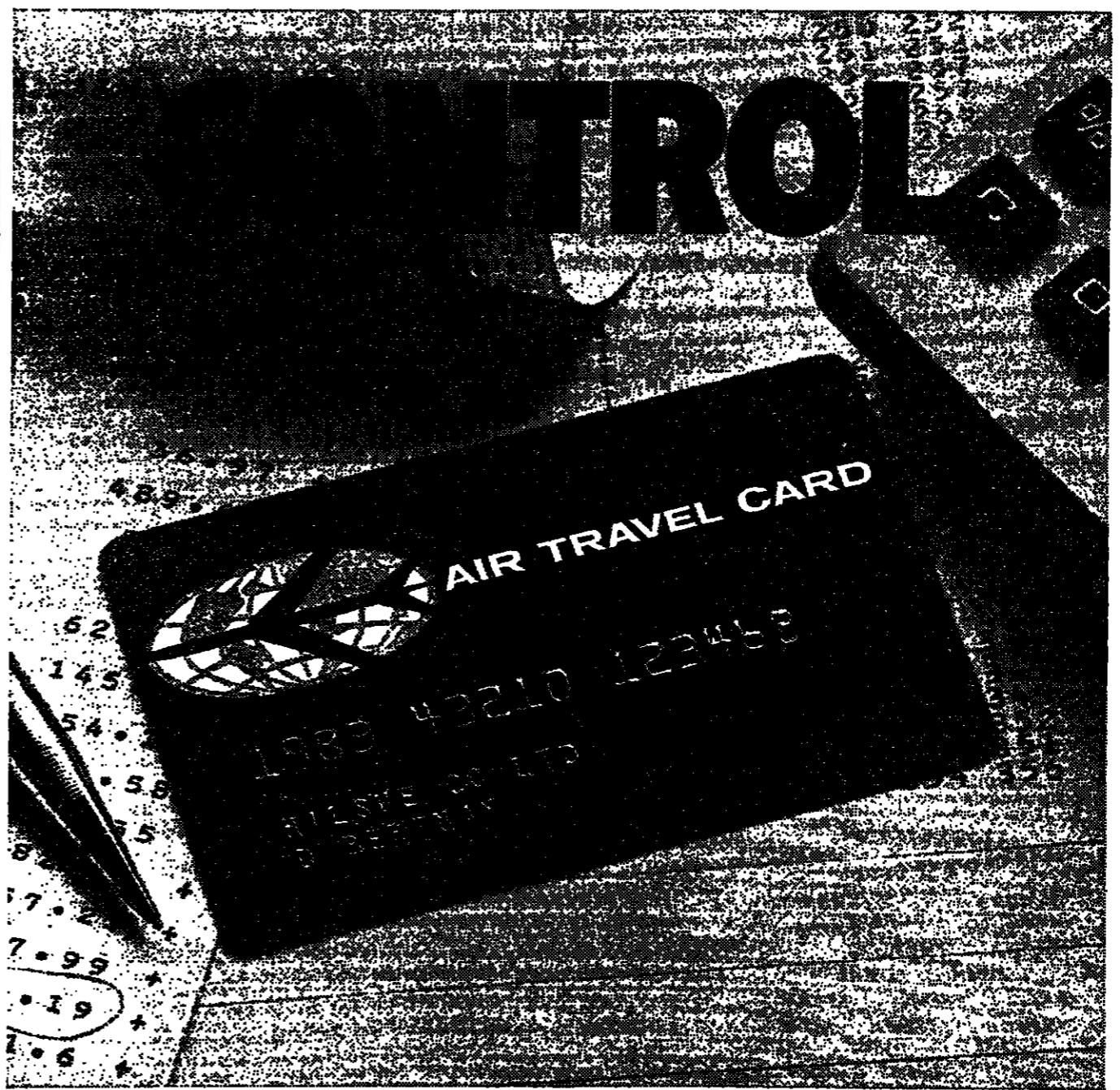
Sir—One did not notice Mr Davies (February 17) or like minded persons complaining at the Britoil flotation which left many small investors worse off and which demonstrated the inferiority of the tender method of floating new issues of this sort. It is impossible to determine a subscription price which

will ensure the taking up of stock issues fully and, at the same time, leave no opportunity for speculation. This does not justify criticism in respect of flotation methods which are part of the machinery of the finest financial centre in the world.

The object of denationalising an industry is not merely to increase competition and consumer choice. It is to remove industries from the sphere of government which has enough to do to govern wisely, and which has never shown any spectacularly successful entrepreneurial ability. This removes from the taxpayer the burden of providing capital for example, and places this where it belongs, in the capital market. In short, the object is to roll back the frontiers of the state—and a very good thing, too.

Can we please ask such as Mr Davies to stop complaining on the basis that some people will make a profit on sharedealing by advancing the unrelated argument that there are "many millions who can only keep their heads above water, let alone buy shares." He knows full well that the largest investors are pension funds and similar institutions in which many of those millions have a very real interest. Moreover, the suggestion that many analysts expected a price tag for ABP of twice that adopted just does not bear examination.

A. W. Nelson,
Hedgeross, Orchard Road,
Pratts Bottom, Kent.



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U.S. output drop held to 1.9% in fourth quarter

By Reginald Dale, U.S. Editor, in Washington

THE U.S. economy was slightly healthier than originally thought in the last quarter of 1982, the Commerce Department reported yesterday. It said revised figures showed real gross national product fell at an annual rate of only 1.9 per cent in the months October to December, against earlier estimates of a drop of as much as 2.5 per cent.

The contraction in the fourth quarter followed weak 0.7 per cent growth rate in the third quarter and 2.1 per cent in the second, the Department said. Before that the economy contracted at annual rates of more than 5 per cent in two successive quarters.

The revised figure for the fourth quarter came as a surprise to many economists, who had feared that the move would be in the other direction - although the Administration has long been insisting that recovery is under way.

Meanwhile Mr Beryl Sprinkel, Treasury under-secretary for monetary affairs, said it would be unlikely for the Federal Reserve Board to attempt to reverse the bulge in money supply that has occurred in the last few months. "Such a monetary contraction would almost certainly stall any meaningful economic recovery and could, depending on its severity and duration, plunge the economy into a deeper recession," he told the Senate Banking Committee.

He said the money growth target ranges for 1983, announced by the Fed last week, were consistent with the Administration's goal of providing enough money growth to support economic expansion without re-igniting inflationary pressures. The challenge of reinstating non-inflationary monetary policy was to bring down the long-run trend of money growth gradually enough to ensure that the restriction of economic activity was avoided, he said.

The National Association of Business Economists said that it saw the recession as ending, but that it believed unemployment would remain high for some time. The association said that its latest survey of members showed an increase in demand at 43 per cent of companies polled, but that 55 per cent had reported no change in employment prospects and 32 per cent were still reducing payrolls.

At the annual winter meeting of the AFL-CIO, the country's largest trade union federation, Mr Lane Kirkland, President, said only a large-scale jobs programme, starting as soon as possible, could end the recession. If unemployment continued at the "intolerable" rate of 9 or 10 per cent, there could be no sustained recovery this year or next, he said.

Japanese set for clash over rival disc systems

BY GUY DE JONQUIERES IN LONDON

TWO RIVAL groups of Japanese electronics manufacturers are preparing for battle as they seek to dominate the world market for the new generation of compact disc storage discs designed for use with personal computers and terminals.

At stake are annual sales estimated at several hundred million dollars. More than 20m discs and 500,000 of the disc drive systems used to read and write data on them are expected to be sold next year.

Industry experts agree that establishing a widespread technical standard for the discs will be crucial to the development of the market. But instead of uniting behind a single standard, Japanese manufacturers are preparing to enter battle with two different competing systems.

Hitachi said yesterday it had won

the backing of 18 other manufacturers, including three U.S. companies, for a 3-inch disc which it has developed jointly with Matsushita Electric and Hitachi Maxell. The disc can store 500,000 bytes (computer words of data).

Its move directly challenges Sony, which announced last month that it had the backing of 12 U.S. and Japanese companies for its 3.5 inch compact disc, which can store 1m bytes.

Both groups clearly believe that capturing a large share of the U.S. market is crucial to their success. Sony appears to have the edge at present, having won the support of nine U.S. companies including Shugart, one of the world leaders in disc drives.

Several manufacturers are hedge-

ing their bets, however, by declaring support for both standards. They include 3M of the U.S., Fuji Photo of Japan and, ironically, Hitachi itself, which is already making 3.5 inch discs for the American market.

The position is complicated further by IBM's recent launch of still another, 4-inch, system for use with its highly successful personal computer.

The situation parallels the division in the video cassette recorder market, where Japanese manufacturers support two incompatible standards. But these standards were developed before it was clear that VCRs would sell in huge numbers, while the popularity of compact discs appears a foregone conclusion.

Ghana agrees to IMF-backed four-year recovery programme

BY MICHAEL HOLMAN IN LONDON

GHANA has reached agreement in principle on a major recovery programme supported by the International Monetary Fund (IMF), Dr Kwesi Botchway, Financial Secretary, said in London this week.

The programme includes a mid-year donors' conference, chaired by the World Bank.

Dr Botchway made his announcement on his way back to Accra after talks in Washington with the IMF and the World Bank.

The amount under discussion is believed to exceed Special Drawing Rights (SDRs) 200m under a one year standby, plus a further SDR 100m under the compensatory financing facility.

Negotiations have been protracted and difficult and a major problem has been the grossly overvalued Ghanaian cedi, with an official rate of C5-£1 but exchanged at 15 to 20 times that on the black market.

Ghana is now expected to introduce a multiple exchange rate in-

volving a de facto devaluation of the cedi. Details may be announced in next month's budget, and this will be followed by a further visit from an IMF team before agreement is formally concluded.

Dr Botchway, the equivalent of Finance Minister in Flight Lieutenant Jerry Rawlings' Government, said his Washington talks had included long discussions with the World Bank.

"We have reached agreement in principle for substantial short-term funding in agriculture and transport, as well as for export rehabilitation projects," he said.

The talks with the IMF and the Bank were based on Ghana's reconstruction programme published in December, and the 48-page document will form the basis of the donors' meeting in Paris.

News of the proposed recovery programme comes in the middle of a deepening economic crisis. Production of cocoa, Ghana's largest

foreign exchange earner, is forecast at 190,000 tons in the 1982-83 season, the lowest post-war level and a third of peak production in 1964-65.

The steady decline has been caused by an overvalued currency, which has led to smuggling, transport problems, ageing trees, and an acute shortage of labour due to the migration of young Ghanaians to other West African countries.

Many of these migrants are now back in Ghana following Nigeria's expulsion last month of between 1m and 2m aliens.

Ghana's four-year recovery programme includes what it calls "restructuring of basic institutions," including external trade, banking and insurance.

All imports and exports will be brought under a state monopoly and state holdings in banks and insurance companies will rise from 40 to 80 per cent.

International capital markets, Page 24

Rumasa denies solvency threat

BY DAVID WHITE IN MADRID

SR Jose Maria Ruiz-Mateos, chairman of Rumasa, the Spanish banking and holding group, fought back last night against what he hinted was a plot to sow panic among depositors and "provoke a catastrophe."

At a packed press conference attended by a large number of Rumasa employees, he denied firmly that the group's solvency was in any way threatened.

He claimed that the "immense majority" of the group's banking customers had shown their confidence in Rumasa and that with-

drawals over the three working days since the latest controversy broke out were "without significance in banking terms."

He estimated that since Sr Miguel Boyer, the Economy and Finance Minister, issued his surprising threat on Friday to send in Bank of Spain inspectors if Rumasa broke off its auditing agreement, a total of "Pta 1bn odd" (\$8m), was thought to have been withdrawn from the group's 1,200 bank branches.

Customers' deposits in the 18

banks controlled by Rumasa currently stand at around Pta 617bn

Rumasa officials made clear, however, that the group was still at loggerheads with the Government over the conditions under which its auditors, Arthur Andersen, should report.

A meeting on Monday night between Sr Ruiz-Mateos and Sr Boyer, failed to produce agreement. Rumasa said that the point of discord was about whether the company should participate when the auditors reported to the Bank of Spain.

Italy decides to build three PWRs

By James Burton in Rome

ITALY PLANS to begin building three large nuclear power stations within the next two years.

The inter-ministerial Economic Policy Committee last night designated two possible sites for a 1000 MW pressurised water reactor based on the Westinghouse design in each of the regions of Piedmont and Lombardy in the north and Puglia in the south-east.

The decision is the most important boost in years both to the Italian nuclear industry and to the country's hopes of cutting its heavy dependence on imported oil.

Italy has only three working nuclear power stations accounting for less than 5 per cent of its electricity production last year. A fourth plant is at an early stage of construction. It was held up for nearly a year after site preparation had begun because of the objections of the local mayor and commune (district council).

Delays because of opposition to the new nuclear power stations are likely to be limited in future. Last month the Government armed itself with a law which enables it to go ahead with construction within 18 to 22 months even if the local authorities for the chosen sites object.

The new law reflects a sharp change in attitudes to nuclear power by almost all political parties in Italy. The country depends on oil, almost all of it imported, for more than 65 per cent of its energy needs.

The new power stations, which are expected to come on stream from 1992 onwards, are part of the 1980 energy plan which has not yet been implemented. It aims at a decisive switch away from reliance on oil.

The new plants are expected to be built mainly by companies in the state owned Ansaldo Group. Last night Sig. Franco Viezzoli, chairman of Ansaldo's parent company Finmeccanica said: "This is one of the most important things the Government has done in recent years."

He made the statement at a year of important and brave decisions, by our Parliament. It would have a major effect on the electro-mechanical industry, he said.

The alternative site has been chosen on the basis of seismic data and other factors and in the next year and a half Enel the state electricity authority and ENEA the nuclear authority, will make the detailed choice of the site from the alternatives.

In the case of Piedmont and Puglia the regional authorities have proposed the possible sites, which the government adopted. Lombardy has shown itself less enthusiastic while the commune of the places involved have in some cases put up strong opposition.

Richier, which has a turnover of about FF 400m a year, is to be taken over by M. Gilles Poncin, whose construction equipment group has a sales of about FF 100m.

M. Poncin's main company, Ardenne Equipment, manufactures items such as buckets and shovels used with hydraulic machinery. It was not clear yesterday how much money M. Poncin himself is injecting into Richier, or what role state banks are playing in putting up part of the FF 90m cash.

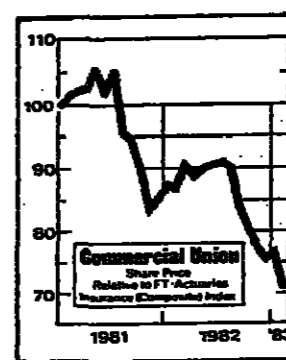
Richier confirmed yesterday that it had broken even last year after "two years of difficult trading brought about by severe financial constraints." It said it is planning to increase its activities in the UK - an important export market for the group - and to build up its share of sales of 380-degree rotating excavators.

The restructuring plan, worked out with the French Government's interministerial committee which helps companies in difficulties, will involve the loss of about 60 jobs from Richier's 805 workforce.

In yesterday's report on Slavenburg's bank, it was stated that M. Jacques Neville had just been appointed a director of the bank by the majority holder, Credit Lyonnais of France. In fact, M. Neville has been a director of Slavenburg's for some time.

THE LEX COLUMN

Bullion in the firing line



After a day and a half of nervous vacillation, international markets were galvanised into action when the U.S. returned to work yesterday from the long weekend. Wall Street has traditionally been ready to accept the possibility of Opec collapse. So as the Gulf states met to consider their reaction to Nigeria's unilateral price cut, markets worldwide were influenced by the injection of some U.S. dealers' expectation that the oil price is on its way down to its marginal cost of production - somewhere below \$20 a barrel.

In the currency markets, the dollar outperformed even the yen and D-mark. Cheap oil would tend to wipe out a projected \$25m U.S. current account deficit this year. So the consensus view of underlying weakness in the dollar has suddenly been undermined. With a reduction in the currency holding risk, the attraction of holding U.S. income-producing instruments offering real rates of return of up to 6 per cent has been reinforced.

As a non-yielding asset, gold saw a natural reaction. The price had anyway been looking vulnerable in recent days, with narrowing price movements and thin trading volumes. At above \$500, bullion has been near all-time highs in terms of several currencies and demand from fabricators has dried up. Similarly, there has been no follow through after the strong purchase of Kruggerands in January, while evidence of hoarding in local markets has emerged. As the price began to slip through the \$500 barrier, a heavy volume of stop-loss orders came into play and the price fell away to \$488 by the London close, down \$16, with a further decline in New York. Gold shares and other metal prices dropped in sympathy.

Sterling's trade-weighted index fell by 0.5 to 79.7, and the currency's weakness is once again emerging as the key concern in the fixed interest markets. In the money market the yield curve has flattened as expectations of a bank base rate cut have been pushed back, while long gilt-edged stocks shed 14 points.

Canada is already benefiting from a similar shake-out, while the UK is in for a two-year slumping treatment which should be a help in an environment where commercial business is still as tough as ever.

This year, the market will be looking for a substantial reduction in Commercial Union's £271.5m underwriting losses. Even so, with investment income due to decline as both cash flow and interest rates weaken, profit expectations are still well down on 1981 at around £55m. That would suggest a dividend that would be barely covered, but for the moment, the shares, up 3p yesterday to 137p, are being buoyed up by a yield of almost 13 per cent.

Commercial Union's nine-month figures were bad enough, but the final quarter produced an even nastier shock. The £28m loss for the three months, caused by a dramatic growth in the U.S. deficit to £41.7m,

left pre-tax profits for the year to December down at £31.5m against £88.5m. The dividend has been held, but only by dint of a £19.1m transfer from reserves.

The company justified its dividend policy yesterday on the grounds of a substantial increase in the book value of assets to a little over £1bn. Indeed, shareholders funds as a ratio of premiums increased by just over a point to 58 per cent; the strong cash flow generated up to the middle of last year as the company chased U.S. volume boosted investment funds, and the rise in bond markets did the rest.

In the last few months, Commercial Union has made a substantial change away from its growth strategy in the U.S. While premium income for the year was up by 8 per cent, it dropped sharply in the last quarter as rates were hardened, and there are more staff cuts to come this year in the elusive chase to bring the expense ratio down from 34.5 per cent to 30 per cent.

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World Weather									
Atmosphere					Sea				
City	Temp	Wind	Cloud	Vis	Wave	Current	Temp	Wind	Cloud
Amsterdam	10	15	10	10	10	10	10	15	10
Antwerp	10	15	10	10	10	10	10	15	10
Birmingham	10	15	10	10	10	10	10	15	10
Bombay	25	15	10	10	10	10	25	15	10
Buenos Aires	15	15	10	10	10	10	15	15	10
Calcutta	25	15	10	10	10	10	25	15	10
Canton	25	15	10	10	10	10	25	15	10
Cebu	25	15	10	10	10	10	25	15	10
Colon	25	15	10	10	10	10	25	15	10
Hankow	15	15	10	10	10	10	15	15	10
Hong Kong	25	15	10	10	10	10	25	15	10
Kobe	15	15	10	10	10	10	15	15	10
London	10	15	10	10	10	10	10	15	10
Lyons	10	15	10	10	10	10	10	15	10
Manila	25	15	10	10	10	10	25	15	10
Medan	25	15	10	10	10	10	25	15	10
Osaka	15	15	10	10	10	10	15	15	10
Paris	10	15	10	10	10	10	10	15	10
Perth	15	15	10	10	10	10	15	15	10
Rangoon	25	15	10	10	10	10	25	15	10
San Francisco	15	15	10	10	10	10	15	15	10
Singapore	25	15	10	10	10	10	25	15	10
Sourabaya	25	15	10	10	10	10	25	15	10
Tokyo	15	15	10	10	10	10	15	15	10
Yokohama	15	15	10	10	10	10	15	15	10

Gold down \$16 on day

Continued from Page 1

rates from rising, by making good shortages in the money market, acted yesterday to provide extra liquidity over the next period of heavy payments. Some \$750m (\$1.4bn) will be available to the banking system to cover the petroleum revenue tax season. In the first two weeks of March.

Dealers said that sterling had not been under great selling pressure, although speculators were likely to hang back until after the Gulf oil ministers' meeting had clarified their pricing policy.

But the dollar was strong all day, and when it passed SwFr 2.0000 - its 20-day average against the Swiss currency - there was a rush to sell Swiss francs against the dollar. Within half an hour, the dollar had risen by about 1 per cent on average, gaining strongly on the D-Mark and the yen as well.

The unwinding of some speculative positions on the New York Comex market was the reason dealers gave for a drop in the London gold price of \$16.50 on the day, to close at \$498 an ounce.

Paris aid for excavator company

By David Marsh in Paris

THE FRENCH Government is contributing the largest share of a FF 90m (\$13.3m) rescue package which has been worked out to save from bankruptcy the Richier excavator company, France's second largest manufacturer of construction equipment.

Richier, which has a turnover of about FF 400m a year, is to be taken over by M. Gilles Poncin, whose construction equipment group has a sales of about FF 100m.

M. Poncin's main company, Ardenne Equipment, manufactures items such as buckets and shovels used with hydraulic machinery. It was not clear yesterday how much money M. Poncin himself is injecting into Richier, or what role state banks are playing in putting up part of the FF 90m cash.

INTERNATIONAL COMPANIES and FINANCE

Expansion hopes for Manila OBUs

BY EMILIA TAGAZA IN MANILA

FOREIGN BANKS in the Philippines have been given new hope on their long-standing bid to perform full commercial banking services in Manila. The Central Bank, which had previously refused to consider their request, has now formed a special group to study the implications of a move granting deposit-taking functions to offshore banking units (OBUs). The Central Bank said that the study team would go to countries where OBUs have been given access to local funds.

Since the OBUs first opened in Manila in 1977, their operations have been limited mainly to bringing in offshore funds for lending to both foreign and local borrowers. Over the years, the Central Bank has granted them additional concessions and they eventually have been allowed to finance imports by local companies of machinery and equipment worth more than US\$1m, to render financial consultancy services to local firms, and to handle foreign exchange remittances of Filipino overseas workers. The five per cent tax on their income from transactions with foreign companies has also been scrapped.

However, the OBUs claim that despite these concessions, the return on their investment has not been satisfactory. Moreover, the main source of their income—the booking of foreign currency loans for local borrowers was being depleted.

Mr Joseph Longobardi, the vice-president of Manufacturers Hanover Trust and the chairman of the Offshore Banking Units' Association, said that many banks have reached their risk limit for the Philippines, leaving no room for additional foreign currency loans.

Indeed, income derived by OBUs in Manila has been marginal. The Central Bank estimates that in 1982, the 25 OBUs had total net earnings of just about \$30m, compared with \$23m in 1981.

Since the late 1940s only four foreign banks have been allowed by Philippine law to operate full branches in the country. These are Chartered Bank, Hongkong and Shanghai Banking Corporation, Citibank and Bank of America. Any move to open the field to other foreign banks would require the amendment of present banking laws by parliament.

Foreign bank officials point out that Manila is bidding to become another financial centre in Asia and almost all other international financial centres allow foreign banks to take deposits and lend in the local currency as no financial institution can survive in the long-term from merely lending foreign money.

One banker said, "international banks will naturally concentrate their resources in centres where they can maximise their returns such as in Hong Kong or Singapore. Countries with low returns, like the Philippines, get low priority and this is evidenced by the slow-down in the application for OBU licences in Manila."

The OBUs are also floating the idea of bringing in their sophisticated financial intermediation tools that could put Manila at par with the financial markets in Hong Kong and Singapore.

However, the influential Bankers' Association of the Philippines (BAP) is opposing the OBU lobby. In a position paper submitted to the Central Bank, the BAP argued that other countries have permitted limited entry to foreign banks

only after their domestic banks have been consolidated to form fewer but stronger banks. The BAP said that the Philippines is still consolidating a fragmented financial system and the government has disallowed the establishment of new banks and required existing banks to increase their capital bases.

There are now 34 commercial banks in the country, 45 private development banks, eight savings banks, and 13 investment banks, all scrambling for local funds.

Local bankers also worry that if the OBUs went into full banking operations, they could easily capture a substantial portion of the business generated from foreign companies. One banker said, "We would be left with the crumbs while the foreigners will feast on the prime accounts."

Nevertheless, the OBUs and the local banks seem prepared to accept a compromise position. The BAP have recommended that foreign banks wanting to expand operations can buy into local commercial banks instead. On the other hand, the OBUs say that if they were permitted to expand their businesses, they would be prepared to limit the value of local currency transactions.

Waltons Bond to pull out of Victoria

By Lachlan Drummond in Sydney

WALTONS BOND, the Sydney retailer almost 50 per cent owned by Bond Corporation Holdings, is to withdraw from the Victorian retail market by closing its 10 stores in that state.

The decision to wind-down operations follows the failure to win buyers for its stock, fixtures and fittings among other retail groups and efforts began last November to sell the four of the 10 retail sites it owns. Only one has been sold.

Waltons entered the Victorian market in 1964 and according to Mr John Donohoe, the managing director, the company struggled for many years despite efforts to stimulate trading. In the past two years it ran up losses of A\$8.8m (US\$5.5m) on the Victorian operations.

"To continue in Victoria would have jeopardised our plans to expand and improve our profitable operations in New South Wales and Queensland," Mr Donohoe said.

Waltons has 87 stores in NSW and Queensland, including the Norman Ross discount chain it took over last year after a battle with Grace Brothers Holdings, another Sydney retailer in which Waltons now has an almost 30 per cent stake as a result of that tussle.

Sharp fall in profits at McPhersons

By Our Sydney Correspondent

NET EARNINGS of McPhersons, the steel stockholding, industrial fasteners, hand tools and pumps, and printing group, dropped from A\$6.62m to A\$2.84m (US\$2.4m) in the half-year to December 31 under the effects of lower sales and import competition.

After extraordinary costs from the withdrawal from industrial products distribution the group ended with a A\$2.77m attributable loss compared with a A\$6.47m profit last time.

The interim dividend has been cut from 6 cents to 3 cents a share.

Siam Cement firmly on the road to recovery

BY STEWART DALEY RECENTLY IN BANGKOK

SIAM CEMENT is Thailand's largest industrial concern, with some 10,000 employees and an annual turnover of around \$500m. In the last year the company has been making a strong recovery following a collapse in profits in 1981.

Although final figures for 1982 are yet to be released pre-tax profits are expected to be \$50m baht (\$25m). Net profits are seen as reaching 300m baht, sharply up on 1981's 50m baht.

Besides cement the company's other four main divisions manufacture fibre cement, concrete products and aggregate; construction related steel products (such as steel bars, wire rods and re-inforcing bars); and special iron and steel castings.

A sixth division, the SGT company, is a trading concern representing more than 90 local companies offering a range of processed goods including frozen and tinned seafoods, fruits and vegetables, wood products, mosaic tiles and pulp and paper.

Apart from its six divisions Siam Cement also has several subsidiaries. Among the more prominent of these is Siam Kubota Diesel, a joint-venture with the Japanese Kubota company producing small diesel engines and agricultural equipment. A second subsidiary, Siam Kraft Paper, is the country's largest industrial paper and paperboard manufacturer with a 100,000 tonnes per year capacity.

Two other subsidiaries are Thai Ceramic, the country's largest tile exporter, and SCG, an overseas holding company. Siam Cement also holds shares in Siam Prosperity Shipping, which operates a fleet of 16,000 tonnes bulk carrier.

The actual size of Siam Cement's holdings in these subsidiaries is not revealed, but it appears that they do not contribute a great deal to its total turnover.

The company is primarily orientated towards serving the Thai domestic market with only between five and 10 per cent of group products exported each year.

Last year's sharp improvement in profit margins was due to three factors. Firstly, the Government lifted the price controls on cement imposed in 1981 because of over-capacity in the industry. Total capacity had jumped from 5.2m tonnes at the end of 1980 to 7.5m

tonnes by the end of 1981. Siam Cement's own capacity is currently around 5.8m tonnes.

The second major boost was given by the fall in interest rates in 1982 which reduced the cost of the company's sizable borrowings. Finally and probably most importantly, the cost of imported energy declined sharply last year. Some 50 per cent of Siam Cement's total turnover comes from the manu-



King Bhumibol of Thailand said to be the controlling shareholder in Siam Cement

facture of Portland mixed and white cement at four plants and energy can account for up to 60 per cent of manufacturing costs, according to the company.

It has to be noted, however, that the 1981 devaluation of the baht, which sharply pushed up raw material costs, would, had the company not been allowed to defer most of its tax bill, have hit earnings badly. Without this concession from the Revenue Court it is unlikely that the company would have been able to pay a dividend in 1981.

It was the interim dividend was passed in 1981 but a final of 10 baht per share was paid. This compared with 20 baht per share paid in 1980.

Siam cement is a publicly quoted company on the Bangkok exchange but in practice it behaves more like a semi-state owned concern. Originally the Crown Property Bureau, one of King Bhumibol of Thailand's financial vehicles, owned a third of the issued shares. Today the monarch, through his vehicle, is believed

to have a controlling holding in the company.

The chief executives of the company include a number of former government ministers and senior officials of leading banks and state enterprises.

The company's 1981 balance sheet, the latest available, showed a debt-to-equity ratio of three to one. There were 1.8m ordinary shares in issue, valued in total at just under 1.1m baht. Reserves and shareholders' funds amounted to double this figure, at 2.2m baht. The company had total liabilities of 7.3m baht including some 5.5m in long-term debt. Most of the loans were from overseas, borrowed primarily in Hong Kong and Japan.

In terms of its future the company is known to be looking for foreign partners to join it in a project to build a petrochemical complex, probably its biggest venture to date. Preliminary plans involve the construction of a plant to produce about 50,000 tonnes of high density polyethylene per year, with production forecast to start in 1990.

The petrochemical complex is part of an ambitious \$50m development project involving the use of gas from the Gulf of Thailand. The Thai Government is due to invest some \$1.2m in the project and is hoping to attract partners for the venture from overseas.

However, falling energy costs and confusion as to the extent of recoverable gas reserves in the Thai Gulf have put the downstream parts of the project into doubt. It is now quite possible that the petrochemical complex will not be built but Siam Cement would still stand to gain from the construction aspects of the rest of the project.

Prospects for the current year are good, says the company. Energy costs should continue to fall, particularly if the government can supply Gulf gas to it at the promised prices. This could shave some 10 to 20 per cent from energy costs.

Although general demand for the company's products is not expected to increase significantly over the year, further cost savings through lower interest charges could see annual net profits climbing back to the levels achieved in the late 1970s, of around 450m baht.

Safmarine earnings hit by recession

By Our Johannesburg Correspondent

SOUTH AFRICA'S national carrier, Safmarine, has suffered badly from the international shipping recession and particularly from the country's lower trading volume. In the half year ended December, 1982, turnover was R257m (\$233m) against R315m in the corresponding period of 1981.

Profit from the operation of ships was R30.4m calculated before depreciation and interest charges. During the six months Safmarine became more active as a seller of vessels and made a profit of R10.8m, against only R5.5m in the whole of the preceding year, on this side of its business.

Mr Marnion Marsh, Safmarine's chairman, says that the immediate outlook is for a continuation of difficult trading conditions. The line has, however, maintained its share of the various trades in which it participates. First half earnings have dropped to 23 cents a share from 50 cents.

Showa Denko deeply in the red

BY YOKO SHIBATA IN TOKYO

SHOWA DENKO, one of Japan's major chemical groups, fell deeply into the red in the year ended December 1982, because of a sharp rise in the price of imported naphtha, resulting from the steep depreciation of the yen.

The company has reported pre-tax losses of ¥9.1bn (\$88.9m) for the year against profits of ¥1.49bn for 1981 and net losses of ¥679m, compared with profits of ¥572m. Sales were down by 5.6 per cent to ¥362.95bn.

The net loss per share was ¥73, against earnings of ¥65 and there will be no dividend. For 1981 there was a payment of ¥4 per share.

Petrochemical sales fell by 7.1 per cent in the year to account for 55.5 per cent of the total. Sales by the chemical and carbon sector fell by 0.8 per cent to account for 7.1 per cent, hit by sluggish demand for carbon electrodes from the recession hit steel manufacturing industry both in Japan and in the U.S. Sales of the inorganic material sector, which

includes ceramics and electronic materials were little changed and accounted for 16.5 per cent of the total.

In the current year ending December 1983, a cartel for ethylene production, agreed in October 1982 is expected to have favourable effects on the balance of supply and demand and on market prices. The forecast upward trend of the yen will also help on imported material prices.

Both pre-tax and net profits are expected to reach ¥1bn on full year sales up by 6 per cent to ¥386bn.

Sumitomo Bank to make Singapore FRCD issue

SUMITOMO BANK'S Singapore branch is to issue U.S.\$40m in negotiable five-year floating rate certificates of deposit (FRCD's), the issue manager, Morgan Guaranty Pacific announced yesterday.

The FRCDs will be issued at par in denominations of \$500,000, and interest will be free from withholding taxes in Singapore or Japan. Interest will float at ½ point above the three-month Singapore inter-bank offered rate (Sibor) for

the first four years, AP-1J reports from Singapore.

During the fifth year, interest will float at ½ point over Sibor. The bank will have the option of redeeming the FRCD's after the fourth year. Interest will be paid quarterly.

Co-managers for the issue are DBS-Daiwa Securities International and Australia-Japan International Finance of Hong Kong. Reference banks are Bank of America, Citibank and Swiss Bank Corporation.

Sparrow and Sidewinder: double deterrent in Europe's air defense.

Slicing through NATO airspace, this F-15 goes through its paces as one of the world's most advanced fighters. It's suitably equipped with the world's most advanced medium- and short-range air-to-air missiles: Sparrow and Sidewinder.

Since the original Sparrow III was developed some 30 years ago, Raytheon has continued as prime contractor for succeeding models of this radar-guided missile system. And we are currently in full production on the latest version of Sparrow, the AIM/RIM-7M, with greatly improved capability.

Similarly with Sidewinder. As a long-term industrial support contractor for the U.S. Navy, we produced the guidance control section and fuzing system for the currently deployed AIM-9L, and have now entered production on the next generation Sidewinder AIM-9M.

That's today. Looking further into the future, Raytheon has been selected by the U.S. Air Force as the follower producer for AMRAAM (Advanced Medium Range Air-to-Air Missile) that will play an

important role in U.S. and NATO air defense.

Bringing advanced technology to the ever-more-complex world of air-to-air combat is one of our particular skills. And we bring the same expertise to ground-based air defense systems like Hawk and Patriot, and to a broad array of radar, sonar, and electronic countermeasures systems for shipboard use.

For many years, European firms have participated in cooperative production of NATO Hawk and as members of the Raytheon-managed consortium established to develop and produce the NATO Seasparrow Missile System.

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MINING NEWS

CRA pares losses in better second half

BY GEORGE MILLING-STANLEY

AUSTRALIA'S CRA staged a strong recovery in the second half of 1982, but was unable to recoup the whole of the larger than expected deficit recorded during the opening six months of the year.

Net profits for the second half were A\$15.6m (A\$9.8m), which reduced the loss for the full year to A\$13.8m after extraordinary credits of A\$3.57m. This compares with 1981's profit of A\$3.1m after an extraordinary gain of A\$13.7m, with the gains in both cases coming from the sale of part of the company's interest in Blair Athol Coal.

CRA, the Australian arm of the Rio Tinto-Zinc group, has declared a single dividend for the year of 3 cents a share, after omitting the interim. In 1981, the company paid a total of 5 cents in two equal instalments.

For the year as a whole, CRA made a sizeable loss on its own copper, lead, zinc and silver mining and smelting activities. Added to this were sharply reduced profits from the important Bougainville Copper in Papua New Guinea and the aluminium-producing Comalco. These adverse factors were sufficient to offset strong gains

by the 93.7 per cent-owned Hamersley iron ore operations, CRA's wholly-owned coal

The sudden and steep fall in the bullion price which took place as U.S. markets opened after the long holiday weekend prompted severe losses in South African Gold shares.

They retreated in the face of sizeable American and London selling pressure, triggered by news of the latest series of international oil price cuts.

A number of the leading South African gold miners, such as Hartbeest and Randfontein, fell by more than 23 a share and caused a 37.6 drop to 671.3 in the Gold Mines index. The bullion price closed \$165.57 at \$488 an ounce, its lowest closing level for nearly a month.

Interests and Mary Kathleen Uranium, where the group holds a 51 per cent stake. Interest charges jumped from A\$76.7m to A\$132.3m at group level, with all the operations suffering from a sharp fall in All 1981 figures have been re-

stated to reflect a change of accounting policy in respect of overseas subsidiaries. This had the effect of adding A\$8.9m to 1981 profits and increasing the 1982 loss by A\$3.1m.

Low world metal prices were largely responsible for the poor performance of the wholly-owned Australian Mining and Smelting (AMS) operations.

AMS returned a net loss of A\$51.6m against a profit last time of A\$7.5m.

The mining side of AMS achieved record production, but incurred a loss since its formation in 1971 because of poor returns on lead and zinc.

Two of the Australian smelters produced losses, as did the U.S. smelter and the Avonmouth operation in the UK.

The main bright spot among CRA's wholly-owned operations was the Coal and Coke which turned in profits of A\$17.5m against A\$12.5m in 1981, in spite of export sales being hit by industrial disputes and the fall in orders from steel mills in Japan. CRA closed 2p higher in London at 245p, after a jump to 247p immediately after the announcement.

BIDS AND DEALS

Charter makes renewed bid for Anderson Strathclyde

BY RAY MAUGHAN

Charter Consolidated, the London mining, investment and industrial holding company, finally renewed its bid yesterday for Anderson Strathclyde, the Scottish mining equipment manufacturer which it has had under its sights since May 1980.

The terms of the bid are 200p in cash per share which values Anderson at almost £95m. The new offer compares with the price of 92p per share paid in the May 1980 dawn raid when Charter built up a 28.4 per cent holding in Anderson and the subsequent 135p per share bid, worth £84m, stalled last summer by a reference to the Monopolies Commission.

The Commission recommended, at the end of last year, that the bid be blocked on the grounds that it would act against the public interest. The Minister for Trade controversially over-ruled the Commission's findings and Anderson subsequently failed to have the Minister's verdict quashed in the High Court.

The way was clear, within a day, for a new Charter bid

which, it said yesterday, "fully values Anderson."

Charter was adamant yesterday that the boom in mining equipment orders in recent years was coming to an end and cited two other UK mining machinery manufacturers, Dobson Park Industries and Dowty, in presenting its view that the outlook for the industry was "poor."

It added that Anderson's profits during the past few years have benefited from exceptional factors. Among these, a backlog of orders from the National Coal Board has been fulfilled and, in particular, an increased level of orders for spares have generated a high profit margin hence requiring less working capital and consequently reducing interest charges.

Anderson's response to these remarks was predictably contemptuous and a spokesman for the Scottish company said "in our view the price is offensively inadequate."

Charter expects to post its formal offer documents in about three weeks' time when the statutory waiting period in connection with Anderson's

recent purchase of a controlling interest in National Mine Service has expired under the U.S. Hart-Scott-Rodino Antitrust Improvement Act of 1976.

Anderson's defence will be based initially on an estimate of its profits for the year which ends next month when the City is forecasting a pre-tax surplus of some £13m. Charter has based its case on the assumption that second-half profits will match those of the first to give annual profits of £12.7m and earnings, had NMS been acquired at the start of the year, would be 9.4p per share.

Mr Neil Clarke, chief executive of Charter, said that NMS is going to be the biggest strain, its a challenge enough already. Charter calculates that the interest cost of the NMS holding would be £2.3m against which it will be able to offset dividend of only £1.4m, assuming that the NMS dividend is maintained at 36 cents per share. Allowing for first-half losses at NMS, the overall effect of the NMS acquisition, Charter believes, will be to reduce Anderson's profits by about £3.4m pre-tax at current interest rates.

Dowty stake in Hydrostatic

BY CHARLES BATCHELOR

Dowty Group, the aerospace, defence and mining equipment maker, is to take a 50 per cent stake in Hydrostatic Transmissions with an option to acquire the rest at the end of three years.

If the option is exercised, Dowty will pay a total of £2.35m cash for subsequent, which designs and manufactures high torque radial-piston hydraulic motors at Brentwood, Essex for the mining and construction industries.

Hydrostatic made a pre-tax profit of £392,000 on turnover of

£1.94m for the year ended May 31, 1982. Direct exports account for 14.18 per cent of turnover with the principal markets in South Africa, Germany and the U.S.

Hydrostatic's product range will complement the equipment and systems made by Dowty Hydraulic Unit. This company accounted for £13.7m of Dowty's industrial division turnover of £37.5m in the year ended March 31, 1982. Total Dowty Group turnover was £351m.

The option to buy the remain-

ing 50 per cent of Hydrostatic depended on profit performance and market developments, Dowty said.

Hydrostatic's products in the U.S. would be serviced by Dowty Industrial Corporation, from Atlanta, Georgia. Servicing and marketing of Hydrostatic's range would be more effectively carried out by Dowty's worldwide outlets, it added.

Dowty last year paid £9m for R&D activities. New Jersey-based manufacturer of electronic control and radio communication equipment.

BLUE CIRCLE INDS. DECISION EXPECTED

The Office of Fair Trading yesterday sent its advice on whether Blue Circle Industries' £26m bid for Aberthaw Cement should be referred to the Monopolies and Mergers Commission to Lord Cockfield, Trade Secretary.

He is expected to announce his decision before the first closing date for the offer, on Monday, February 28. Aberthaw's shares fell 5p yesterday to 570p compared with the 632p value of the share bid and the value of the alternative share and cash offer. Blue Circle fell 3p to 395p.

MAY & BAKER BUYS SILICONE COMPANY

May & Baker, the UK pharmaceuticals and chemicals subsidiary of the French Rhône-Poulenc group, has acquired Branzon Australia, a maker of silicone sealants, for an undisclosed sum.

Branzon, based in Melbourne, made pre-tax profits of A\$251,000 (£158,000) in 1981-82 on turnover of A\$4m. The company was previously owned by the Kutz family.

This purchase conforms to Rhône-Poulenc's policy of expanding into the world market for silicone products. Branzon will continue to operate as a separate company within the May and Baker group.

WILLIAM BOULTON SELLS LITTLERLANDS

The William Boulton Group has sold Littlerlands to Bulten-Kanthal, the UK subsidiary of Bulten-Kanthal AB, of Sweden, for a total consideration of £244,000 paid in cash at completion.

Littlerlands makes electric heating elements for the ceramic, glass, metallurgical and allied industries. The principal activity of Bulten-Kanthal is the importing of engineering products. For a number of years Bulten-Kanthal has been the main supplier to Littlerlands of electrical resistance alloy wires used in the manufacture of elements.

COATES BROTHERS ACQUISITION

Coates Brothers is to acquire the equity of S. D. Litho of St. Helens, Lancashire, manufacturers of presensitised plates, from the B.I.C.C. Group on May 1. It is estimated that the net asset value of the company being acquired is £68,000.

S.D. Litho will be merged with Coates Litho Plates to form a new company, Coates Graphic Products, which will be located at St. Helens.

The product ranges currently marketed by the two companies will continue to be supplied after amalgamation, but the expanded company with its improved technical, manufacturing and selling capability will offer significant benefits to its customers in the future.

PAVILION LEISURE

Mr Michael Shellim and associates have an interest equal to 28.22 per cent in Pavilion Leisure Holdings. They recently purchased a further 2.5 per cent stake.

NO PROBES

The proposed acquisition by U.S. Standard Corporation of the A.L. of Henry Sykes, and the proposed acquisition by Throgmorton Trust of control of R. Green are not being referred to the Monopolies Commission.

BRABY LESLIE

Acceptances of the offer for Braby Leslie by Doverford have been received on account of 8,456,306 ordinary shares units (£3.71 per cent) and not 3,456,306 (£3.71 per cent) as stated in yesterday's edition.

CONTRACTS

£6m building work for Espley-Tyas

Contracts totalling almost £6m for a variety of building work have been secured by companies within the ESLEY-TYAS CONSTRUCTION GROUP, a subsidiary of the Espley-Tyas Property Group. The largest, worth about £1.75m, has been placed by the Birmingham and Bridgewater Building Society. To be complete within 15 months, the contract calls for the construction of new offices and refurbishment of existing premises at the Society's Watling Street, Birmingham, head office. Manston (Contractors), Leeds, is constructing a three-storey office and shop development at Wood Street, Wakefield. Manston are also building a motor control gear at Sellindge converter station, UK end of the cross-Channel link. The Emeco contract includes switchgear and motor control gear for auxiliary supplies to the AC/DC converters, valve hall ventilation plant, transformers and reactors, fire protection plant and general station auxiliaries. Deliveries will commence in September, and completion of erection and commissioning is scheduled for the end of 1984. Emeco is a member of the Yorkshire Switchgear Group.

Toyota Motor Corp has signed a contract worth about £110,000 with AC SPARK PLUG OVERSEAS CORP of Britain to import oil filters to be used for car engines. Toyota is to import 170,000 oil filters this year, and is studying the possibility of importing 220,000 oil filters next year. The Japanese car company plans to import about £80m worth of parts, materials and equipment from America and European companies this year.

ANGLO SWEDISH EQUIPMENT, a wholly-owned subsidiary of Volvo BM AB has sold six Volvo 861 6 x 4 articulated dumptrucks to the Ministry of Defence. The trucks, worth about £400,000, are for the Falkland Islands, and will be working in heavy quarrying.

Washington Development Corporation is spending £250,000 to improve access to the industrial and housing areas in the south west part of the new town. The corporation has awarded a contract to CEMENTATION CONSTRUCTION, Darlington, for the construction of a second bridge over the Western Highway A166 (formerly A1231) between the Wear Estate and Lampton Village. All work will be completed within 30 weeks.

BARRATT CONSTRUCTION has been awarded a contract worth £134,000 for alterations and extensions to the Cityside Bank, Great Northern Road, Aberdeen.

TILBURY ROADSTONE, Norwich, is to handle backdrop surfacing of the Copdock to Washbrook Road, London, to Great Yarmouth Trunk Road, under an order worth about £1.5m, placed by CEMENTATION CONSTRUCTION. The dual, two-lane carriageway is 5km long and Tilbury's operations will commence in April/May this year.

New staff costs push Celltech loss to £1.87m

BY DAVID FISHLOCK, SCIENCE EDITOR

CELLTECH, the British biotechnology company set up in 1980 to pioneer the development of new health-care products, increased its turnover five-fold to £368,000 in its second year of operations.

But a year-end loss of £1.87m for 1982 is explained by the scale of recruitment, especially of research and development staff, says Mr H. Wynne Denman, the retiring chairman, in the annual report, published today.

Celltech's staff now numbers 110, more than a third of whom have a PhD, "many with an international reputation for excellence in their chosen fields," Mr Denman says. The average in 1981 was 28 employees.

A third of Celltech's turnover last year came from contract research services to other companies, including a feasibility study for the large-scale production of a monoclonal (antibody) antibody, used in diagnostic testing.

Celltech has strengthened its relations with the Medical Research Council, with which it has an exclusive arrangement concerning development of monoclonal antibodies.

Mr Fairclough says a key objective this year will be to enter the market for diagnostic reagents with monoclonal antibodies.

On 27th May 1982 Stone International Limited purchased the business of the electrical division from the Receivers of Stone-Platt Industries Limited.

Sales for the half year of £32m were an all-time record. Trading profits, before interest and tax, of £3m reflected a welcome improvement in profitability in the UK and in the U.S. All major locations reported profits for the period and the total result gave a return on sales of 9.8%.

Customer confidence in the group has been completely re-established as demonstrated by the order intake of £45m. This will give an outstanding order book in excess of £60m which, in general terms, represents approximately 12 months' backlog.

Apart from unforeseen circumstances, the group expects to make profits in the second half of the year although possibly not at quite the same rate as in the first half.

Uranium interests boost EZ

A COMBINATION of a sharply higher contribution from the uranium interests, better prices for precious metal by-products and the depreciation of the Australian dollar allowed EZ Industries to show higher profits for the latest half-year.

Net profits for the six months to January 12 were A\$12.5m (£7.9m), up from A\$5.6m in the previous comparable period, reports our Sydney correspondent.

Improved prices for the gold and silver content of EZ's zinc-lead-copper ore produced a profit for the mining and milling

operations of A\$1.1m, compared with A\$14,000 last time and a loss of A\$12.9m in the closing half of the last financial year.

The uranium interests held through EZ's 30.5 per cent stake in Energy Resources of Australia (ERA), which operates the Ranger mine in the Northern Territory, contributed A\$7.4m in the latest period. This compares with just A\$1.7m in the first half of last year.

Sales revenue for the half year rose from A\$121.6m to A\$139.7m, with lower prices for lead, zinc and copper offset by higher shipments of lead and zinc.

EZ omitted its final dividend

last year after profits of A\$9.1m, but has returned to the list with an interim payment of 3 cents a share, unchanged from the previous payment.

This will absorb a total of A\$3.4m but the share price covered by the A\$4.45m received from ERA.

Further goods news for EZ comes with the disclosure that construction work at the new Elura lead-zinc, silver mine in New South Wales is complete, and two trainloads of zinc concentrates totalling 2,400 tonnes are en route for the refinery at Risdon in Tasmania.

Decrease in Venezuela iron ore exports

VENEZUELA'S iron ore output fell by 25 per cent to 11.7m tonnes last year, according to Sr Garnet San Carcin, an executive of the state-owned iron ore monopoly Ferrominera.

The company's total sales fell from 15.3m tonnes in 1981 to 10.6m tonnes last year, around U.S.\$230m (£150m), reports Kim Fuld in Caracas.

The decline in "exports" was even more severe, with sales to Europe falling from 7m to 4m tonnes, while U.S. sales were down from 5m to 2m tonnes.

Ferrominera attributes the decline in sales to European markets to problems with shipping costs. The company pointed out that Brazil's 300,000-tonne ore carriers have cut into sales,

since Venezuela can only use 60,000-tonne vessels due to the need to transport the ore down the shallow Orinoco River to the Atlantic.

Ferrominera is considering the purchase of a U.S.\$20m transshipping vessel, which could top up its carriers to 90,000 tonnes or more once they are in the ocean.

Meanwhile, it is reported that the "oil-rich" country is beginning to direct its attention towards developing its other mineral resources, which include uranium and coal.

Sr Jose Ignacio Moreno Leon, general director of Venezuela's Ministry of Energy and Mines, said that projects in the planning stage include new bauxite mines to expand the aluminium

industry, and exploitation of non-metallic minerals such as sand and clay for the construction industry.

Botswana sees upturn in diamonds

HOPE of an upturn in the world diamond market have prompted a mildly reflationary budget in Botswana, a major producer.

Mr Peter Mmusi, Minister of Finance, said in yesterday's budget speech in Gaborone that there are signs that the diamond market is beginning to pull out of its slump, reports Bernard Simona in Johannesburg.

The Government has forecast that the value of Botswana's diamond exports will rise this year to around Pula 350m (£215m), compared with Pula 245m in 1982.

The country's economy suffered its worst year in 1982 since independence in the mid-1960s, and recorded its first decline in output.

Apart from the steep fall in diamond revenues, which account for about half of total export receipts, the economy has been hit by a severe drought in two consecutive years and a sharp decline in export earnings from copper and nickel.

TALBEX CLOSURE

Oliver Engineering (Leyland), a subsidiary of Talbex Group, has been closed. The directors estimate that, in respect of this closure, the total losses, including closure costs, will not exceed £0.2m for the year to July 31.

Oliver, involved in the sheet metal industry, is based at Leyland, Lancashire, and employs 40 people.

Queens Moat buy from GrandMet

Queens Moat Houses announced yesterday that it has bought the 129-room Drury Lane Hotel in London from the Grand Metropolitan group for price undisclosed to be about £2.2m.

The Drury Lane Hotel, the only London hotel owned by the group, is the 50th hotel in the group. In April last year Queens Moat bought the 110-room Hotel Paint which changed its name to International Paint. Established in 1974 it has annual sales of more than 2m litres of paint.

Despite its size Kuwait is a very large market for the business, which is mainly protective coatings for steel structures and marine paints, said Mr Derek Welch, company secretary. "But we have had a negligible share of the market because our previous licensing arrangement was not satisfactory."

International Paint has already signed an order worth £1m over the next 18 months to supply paint for an extension to a Kuwait refinery. It was unlikely it would have got this contract if it had not been able to manufacture locally, said Mr Welch.

Its only other Middle East operation is International Paint (Gulf), which has a plant in Dubai and trades in the United Arab Emirates and Bahrain.

International Paint also has plans to start production in Saudi Arabia, which it currently serves with imports from the UK.

Kleeneze discussing asset sale

Kleeneze, the hard-pressed group whose interests span the manufacture of energy-saving devices, and brushes and cleaning products, announced yesterday that it is considering the sale of "which may lead to the disposal of an undertaking of one of its wholly-owned subsidiaries."

Mr J. Crook, the company's chairman, said at the annual meeting last August that the company was "still being severely affected by recession."

Earlier in the year, it had closed Frederick, Charn, which manufactured industrial brushes, following "a sharp decline in orders."

Profit figures have been depressed in part because of heavy interest payment costs. These rose to £360,000 in the financial year ending last March, compared with £274,000 the year earlier. These higher charges were due mainly to an investment programme on the company's Bristol site.

EUROPEAN PROPERTY INVESTMENT COMPANY N.V. Established in Amsterdam

At the Annual General Meeting of Shareholders held on February 14, 1983, a dividend of Dfls 3.80 per share with a nominal value of Dfls 100 is payable, after deduction of withholding tax, against delivery of coupon No. 9 at N.V.'s Gravenhaagse Kantoor Mully & Co. in the Hague.

THE BOARD OF MANAGING DIRECTORS Amsterdam, Febr. 14, 1983

LADBROKE INDEX based on FT Index Tel: 01-493 5261

ERNEST JONES			
Results for the year ended 2nd October 1982			
	1982	1981	1980
TURNOVER (VAT inclusive)	11,435	10,991	
TURNOVER (VAT exclusive)	9,945	9,564	
PROFIT before TAXATION	168	1,106	
PROFIT after TAXATION	356	736	
EARNINGS per Share	3.6p	7.3p	
DIVIDEND per Share (net)	3.9p	3.9p	
Copies of the Report and Accounts may be obtained, on or after 24th February, from The Secretary.			
ERNEST JONES (Jewellers) p.l.c.			
Shifra House, 17 Harewood Avenue, London NW1 6JD.			

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27/28 Levat Lane London EC3R 8EB				Telephone 01-621 1212	
					Ft
1982/83	1981/82	Company	Price	Gross Yield	Price
141	120	Aas. Brit. Ind. Ord.	140	-	8 4 8
142	57	Aas. Brit. Ind. CULS	57	-	10 0 4
153	117	Aas. Brit. Ind. CULS	70	-	8 1 8
154	100	Amalgamated Group	100	-	8 1 8
156	34	Amalgamated & Rhonoe	34	-	4 12 0
157	100	Amalgamated & Rhonoe	100	-	17 4 3
158	100	Amalgamated & Rhonoe	100	-	8 12 5
134	100	CEL. City Corp. Pref.	134	-	15 7 17
270	240	Harold General	240	-	10 10 0
271	240	Harold General	240	-	6 0 11
272	240	Harold General	240	-	11 3 6
82	77	Frank Hensford	82	-	6 8 7
83	77	Frank Hensford	82	-	6 8 7
84	77	Frank Hensford	82	-	6 8 7
85	77	Frank Hensford	82	-	6 8 7
86	77	Frank Hensford	82	-	6 8 7
87	77	Frank Hensford	82	-	6 8 7
88	77	Frank Hensford	82	-	6 8 7
89	77	Frank Hensford	82	-	6 8 7
90	77	Frank Hensford	82	-	6 8 7
91	77	Frank Hensford	82	-	6 8 7
92	77	Frank Hensford	82	-	6 8 7
93	77	Frank Hensford	82	-	6 8 7
94	77	Frank Hensford	82	-	6 8 7
95	77	Frank Hensford	82	-	6 8 7
96	77	Frank Hensford	82	-	6 8 7
97	77	Frank Hensford	82	-	6 8 7
98	77	Frank Hensford	82	-	6 8 7
99	77	Frank Hensford	82	-	6 8 7
100	77	Frank Hensford	82	-	6 8 7
101	77	Frank Hensford	82	-	6 8 7
102	77	Frank Hensford	82	-	6 8 7
103	77	Frank Hensford	82	-	6 8 7
104	77	Frank Hensford	82	-	6 8 7
105	77	Frank Hensford	82	-	6 8 7
106	77	Frank Hensford	82	-	6 8 7
107	77	Frank Hensford	82	-	6 8 7
108	77	Frank Hensford	82	-	6 8 7
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UK COMPANY NEWS

Poor U.S. performance hits Commercial Union

BY ERIC SHORT, INSURANCE CORRESPONDENT

A POOR fourth quarter on its U.S. operations, coupled with the weak first-quarter figures arising from adverse weather, ensured that the 1982 results of Commercial Union Assurance (CU) were the worst since the dark days of 1975.

Underwriting losses more than doubled on the year from £131.9m to £371.5m and pre-tax profits were slashed by three-quarters from £89.5m to £21.5m. This was despite a 27 per cent increase in net investment income from £191.7m to £243.5m and a 60 per cent jump in life profits from £25.1m to £40.7m.

Despite a reduced taxation and minorities charge of £7.7m against £21.5m, after-tax profits were cut by four-fifths from £88m to £13.8m. The account had the benefit of a £20.2m transfer from life profits arising from the changeover from a triennial to an annual valuation basis, but set aside out of profits a charge of £12.9m net of tax in respect of UK reorganisation costs. This left profits attributable to shareholders for 1982 of £29.1m compared with £88m for 1981.

The CU is maintaining its policy of stability in its dividend payments by declaring an unchanged final of 8.5p. This results in total dividends for 1982 of 11.8p – the same as the previous year.

Non-life premium income increased by 19 per cent from £1.51bn to £1.81bn – the underlying growth rate allowing for exchange rate fluctuations being 8 per cent.

Premium income on life business improved 12 per cent from £330m to £370m. Shareholders' funds rose from £244m to £1.05bn and the solvency margin at the end of 1982 was 58 per cent.

Business in the U.S. last year performed poorly. Premium growth was held to 7.6 per cent from \$1.37bn to \$1.47bn, by a 3.8 per cent decline in the final quarter.

Underwriting results in the U.S. were hit by the severe weather in the first and final quarters, by the generally difficult trading conditions in the insurance markets, and by the decision to put £30m during the last four months to strengthen the claims provision in workers' compensation and liability classes.

This resulted in underwriting losses in the U.S. more than doubling from \$136.7m to \$305.9m, with the operating ratio rising from 103.1 per cent to 120.5 per cent. The claims ratio rose from 73.5 per cent to 86 per cent, but the expense ratio improved marginally from 34.6 per cent to 34.5 per cent despite a reversal of the improving trend in the final quarter.

The company expects that the action taken during 1982 to increase

premium rates – 15 per cent for automobile business – and reduce operational expenses should benefit results in 1983 and 1984.

Intense competition for commercial business in the UK and to a lesser extent on personal business, resulted in premium growth of only 12 per cent from £407m to £467m. These problems were exacerbated by the severe winter weather at the beginning of the year and underwriting losses rose from £11.3m to £44.8m.

The group reports signs of premiums stabilising in commercial fire business, with a rise in premiums income in the final quarter, though still down on the year. It reports that experience so far in 1982 indicates a normal winter for the UK.

A much brighter picture is reported from Canada after years of very poor results. A series of substantial rate increases – around 25 per cent for 1982 – resulted in underwriting losses being reduced from C\$51.9m to C\$15.6m, though premium income was virtually unchanged at C\$349m. The CU claims to be maintaining its market share.

Underwriting losses in the Netherlands rose from F136.3m to F155.4m, with the motor account moving from a useful profit to a significant loss. Underwriting losses from the rest of the world almost doubled from £4.3m to £7.9m.

Profit for Common Brothers at midway

By Our Financial Staff

PROFITS HAVE been achieved in the six months ended December 31 1982 by Common Brothers. The directors are hopeful that results for the remaining period of the current year will continue to be profitable.

The company is a subsidiary of Norex Corporation, of Bermuda. Principal activities are owning, managing, and operating ships and offshore equipment, insurance broking and travel agency.

In the half-year, the profit came out at £76,000 before tax but after minorities of £806,000. No comparisons are given as previous interim statements covered the eight months to the end of February – there was a loss of £256m for the 1982 period.

As well as the minorities, the profit was struck after associates losses £613,000, special charges and provisions £100,000, interest payable £568,000, and it included surplus on sale of ships and investments £318,000.

The company arrested a ship in November to secure certain monies receivable by it under mortgage. An arrangement has now been made whereby, in return for additional security, the vessel has been released for trading on time charter to a third party.

Earnings from this charter, which are assigned to Common Brothers, are sufficient to cover interest on the amount outstanding. As negotiations are still proceeding with regard to the re-scheduling of the loan, no provision has been made for any possible loss.

Despite the depressed economy in the U.S. and fierce competition in the passenger business, increased marketing efforts and cost cutting in the subsidiary Bahama Cruise Line have led to better results for the Veracruz. The vessel is in good condition and has traded profitably since November.

Iro Frig is also performing well, the company states, although costs are higher than forecast in part due to upgrading of a number of items of equipment on board the vessel.

The product tankers have continued to operate on the spot market and have made a small margin over and above daily operating expenses. In order to exploit trading opportunities to the best advantage the company has formed the Golar Product Tanker Pool. The first vessels entering the pool are the group's two product tankers.

RESULTS IN BRIEF

T F & J H BRADME (HOLDINGS)			
Deep draught press work			
Year to Dec 31	1982	1981	
Sales	£	£	
Pre-tax profit	124,000	128,000	
Tax	93,000	49,000	
Attributable profit	117,000	79,000	
Earnings per share	3.65p	4.85p	
Dividend	3.5p	3.5p	

AQUIS SECURITIES			
Property investment, development and hotels			
Year to Dec 31	1982	1981	
Sales	£	£	
Pre-tax profit	1,220	1,770	
Pre-tax profit	807,830	753,061	
Tax	358,918	236,811	
Attributable profit	431,067	478,597	
Earnings per share	1.72p	1.9p	
Dividend	1.3p	1.2p	

ERNEST JONES (JEWELLERS)			
Retail Jewellers			
Year to Oct 2	1982	1981	
Sales	£	£	
Pre-tax profit	9,950m	9,960m	
Pre-tax profit	188,000	1,110	
Tax	188,000*	270,000	
Attributable profit	354,000	736,000	
Earnings per share	3.6p	7.3p	
Dividend	3.5p	2.5p	
* credit			
* including value added tax.			

"INVESTING IN SUCCESS" EQUITIES			
Investment Trust			
Year to Jan 31	1982	1981	
Pre-tax revenue	£	£	
Pre-tax revenue	61,835	533,814	
Tax	204,251	280,825	
Dividend	5.18p	3.04p	
NAV per share	420.3p	343.4p	

ANGLO-INTERNATIONAL			
Investment Trust			
Year to Dec 31	1982	1981	
Pre-tax revenue	£	£	
Pre-tax revenue	553,482	481,902	
Tax	198,449	165,751	
Dividend	5.3p	5.2p	
NAV per share	321.35p	282.2p	

SURPLUS IS DOWN FOR 1982 BUT BEATS FORECAST

Vantona reports £4.29m profit

BY OUR FINANCIAL STAFF

THE Manchester-based textiles concern, Vantona Group, has reported pre-tax profits of £4.29m for the year ended November 28 1982. This was better than the £4m forecast at the time of the Carrington Viyella offer, but down on the previous year's £5.84m.

The results for the 1982 period do not include any figures for Carrington Viyella. On February 9, the offer for Carrington became unconditional and as a result, the new name of the combined group will, with effect from Friday, be Vantona Viyella.

Vantona says it is far too early to comment on the merger, except to say that confidence is reinforced and all management and employees of the two former groups are working with energy and enthusiasm to make it a success.

The first combined results will be announced on July 28, in respect of the half-year to May, which will in-

VANTONA GROUP			
Textiles manufacturer			
Year to Nov 28	1982	1981	
Sales	£	£	
Sales	103,450	104,180	
Pre-tax profit	4.29m	5.84m	
Tax	1.08m	581,000	
Attributable profit	76,000	4.23m	
Earnings per share	14.9p	23.9p	
Dividend	8p	8p	
* Figures for Carrington Viyella excluded			

corporate six months for former Vantona companies and three months for the former Carrington Viyella companies.

Vantona's sales for the year 1981-82 were little changed at £103.45m (£104.18m) with exactly the same pattern in the first and second halves. Mid-year sales were £48.8m (£49.3m) and taxable profits for that period fell from £1.82m to £1.6m.

Full year trading profits dropped from £6.88m to £5.74m, reflecting the intense pressure on margins throughout the 12 months. Pre-tax results were struck after interest charges up from £1.14m to £1.45m, largely as a result of financing higher stocks.

The company says uncertain retail demand made customers reluctant to take in deliveries until well into the final quarter. In the uniform division, customers in the public sector slowed up their intake of uniforms, while major contracts in the export field have also proved difficult to obtain.

Earnings per 20p share, before extraordinary items, decreased from 22.9p to 14.9p, but the dividend is maintained at 8p net with a final of 8p, payable to holders of existing Vantona ordinary shares – but not to holders of the new shares issued as a result of the merger.

Against a forecast of breakeven, the group turned in attributable earnings of £76,000, which compares with £4.23m previously. Tax took £1.08m (£581,000), extraordinary charges rose from £881,000 to £1.06m and preference dividend cost £78,000 (same). Last year, there was also a £33,000 minority profit.

As stated in the interim report, full provision has been made for costs of merging manufacturing units, which will be achieved without reducing overall capacity or the ability to increase volume in line with any recovery in demand. These projects are now well advanced and are also fully compatible with the enlarged group, the benefits however, were not felt to any extent in 1982.

The group says its balance sheet remains healthy, with stock levels and total borrowing marginally down on last year and with debtors and creditors unchanged.

Property unit trusts to merge

BY ANDREW TAYLOR

HARDER TIMES in the commercial property sector have coincided with the merger of two of Britain's leading property unit trust companies.

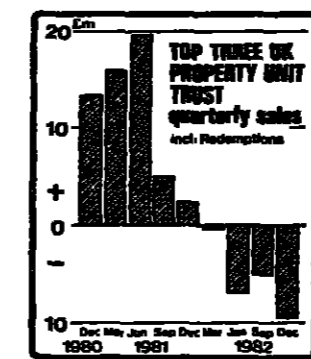
Property Unit Trusts Group, the largest and oldest of the managed funds selling to pension funds and charities, is to be merged with the property management interests of merchant bankers, Morgan Grenfell.

The enlarged Morgan Grenfell Property Services will be responsible for the management of property assets valued at more than £450m.

Mr Roy Nightingale, chief executive of Property Unit Trusts Group, will become vice-chairman of Morgan Grenfell Property Services. Mr David Mathison, chief surveyor of Property Unit Trusts Group, will also join the board of the enlarged company.

Sales of property unit trusts to tax exempt institutions and charities have slumped in the past 12 months, as the commercial property sector has come under increased pressure.

In 1982, for example, sales of new units by the three largest UK pension fund property unit trusts – Fleming Property Unit Trust,



had a net inflow of more than £8m while Fleming reported a net inflow on sales of £5.6m.

Fleming, which manages funds valued at £274m, last year overtook PFFUT's position as the largest UK pension fund property unit trust.

PFFUT is the largest fund in the Property Unit Trusts Group stable, which also includes the Charities Property Unit Trust; The Agricultural Property Unit Trust for Pension Funds and Charities and the Property Unit Trust for Public and General Superannuation Schemes.

The Morgan Grenfell stable is smaller. Its largest fund is the Industrial and Commercial Property Unit Trust, valued at around £70m. In addition, Morgan Grenfell manages several individual pension fund portfolios on behalf of clients.

The new management company will also be responsible for looking after The British American Property Unit Trust which started last year and now has property assets valued at around £30m.

Morgan Grenfell Property Services, by comparison with Property Unit Trust Group, has suffered less badly from falling sales.

Confidence among small businesses

By Tim Dickinson

AN AIR of confidence about their own prospects is evident from a new survey of small businesses published yesterday.

The survey, commissioned by Thomson Local Directories, was carried out among directors of more than 1,000 businesses throughout the UK with between five and 20 staff. Retailers were excluded.

Although pessimism outweighed optimism about the economy generally, nearly 70 per cent of those interviewed were optimistic about their own business future.

A huge majority felt that a change of government would not help improve the economy or reduce unemployment. At the same time, they felt that the Government is not doing enough to help them.

The survey shows that 31 per cent have been cutting staff to maintain or increase their level of business, 30 per cent are increasing advertising, 30 per cent are cutting or discounting, 23 per cent are cutting back on their investment, and 94 per cent are investing more heavily.

HFC Trust Annual Results

HFC Trust Limited is licensed to take deposits under The Banking Act 1979 and offers a wide range of finance, savings and banking services to personal and business customers.

For the year to 31st December 1982, we achieved real growth in all our key business development areas.

The profit before taxation increased by 7.2% to £4.2m and after taxation by 16.7% to £2.09m. Advances increased by £22.4m to £117.4m and included £2.5m of leasing which was undertaken for the first time. The number of customer accounts increased by 23% to 206,000.

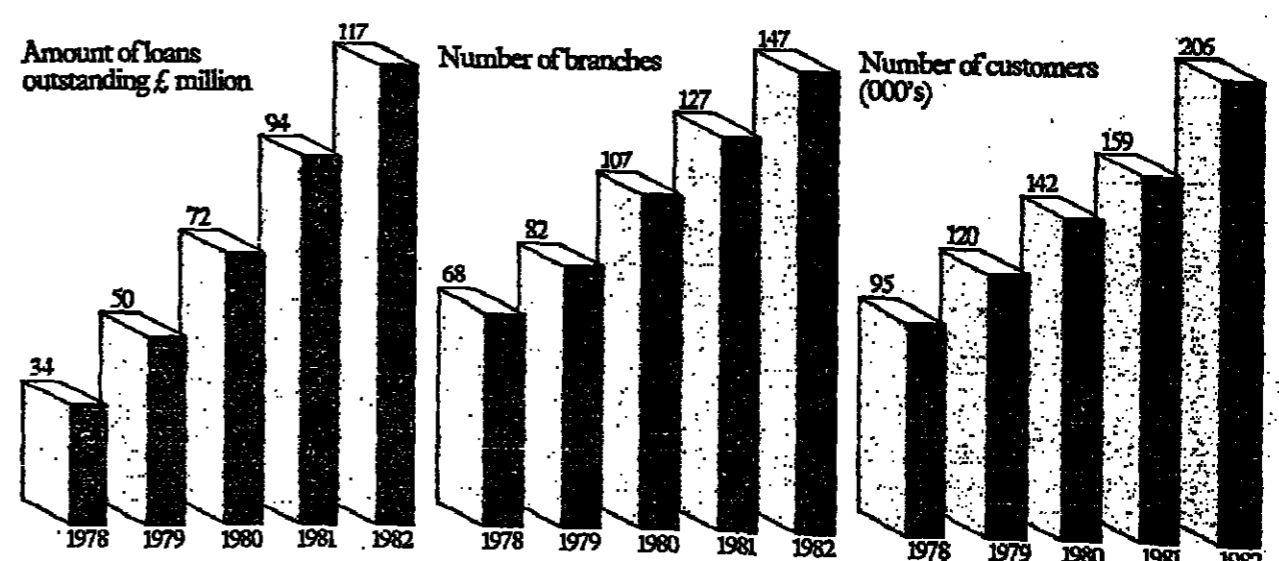
We continued to open branches in major centres throughout the United Kingdom and the twenty additional outlets opened during the year increased the network to 147. A pleasing aspect of our expansion is the promotional opportunities it offers to all members of our staff in line with our policy of promotion from within.

A number of new services are currently being developed to meet our changing pattern of business and, as part of our corporate plan, Mr. Brian H. Weston, F.I.B., was appointed Deputy Chairman in December 1982. This is a newly created position.

The Directors regard the results as being most satisfactory and would like to record a special word of thanks to all our staff, without whose conscientious hard work these results would not have been possible.

Mr. Ian Martindale
Chairman and Managing Director
February, 1983

HFC Trust Limited
Someone to talk to about money



HFC Trust is a member of the Household International Group with worldwide assets of £4.7 billion. Copies of the Report and Accounts are available from The Treasurer, HFC Trust Limited, Cory House, The Ring, Bracknell, Berkshire, RG12 1BL. Telephone: Bracknell (0344) 24777.

Who is the U.K.'s leading steel profiler?

Steel Stockholders Ltd. of Mossend, Lanarkshire have the largest steel profiling capacity in the U.K. and possibly Europe, undertaking major contracts for oil rig construction and other substantial projects using the latest computer controlled machinery.

Steel Stockholders is the profiling and main stockholding division of London and Northern Group.

Other names in the Group equally well known in their fields include Blackwell Tractor Shovels, the U.K.'s leading heavy earthmoving fleet operators; Pauling, a major

force in Overseas Civil Engineering for over 100 years; Edenhall, the U.K.'s biggest producer of concrete facing bricks and Weatherseal Windows, pioneers and innovators in domestic double glazing.

Send for the latest Report and Accounts to find out more about London and Northern, a Group with £217m turnover in 1981, which has increased or maintained its dividend for seventeen years – every year but one since going public in 1963. London and Northern Group PLC, Essex Hall, Essex Street, London WC2R 3JD. Tel: 01-8369261

London and Northern Group PLC
Construction and Civil Engineering – and much more besides.
Housebuilding • Earthmoving • Plant Hire • Double glazing • Building Services • Coal Reclamation • Concrete blockmaking

Diploma improves at half-year with gains in market share

BY OUR FINANCIAL STAFF

sector, I.G. Lintels put in a strong performance with nearly 50 per cent increase in turnover. Higher steel and operating costs allied to a very competitive market place kept the profit increase to around a third.

Results from Henry Whitham fell a little short of those for the corresponding half-year, which was considered a worthy achievement in view of the extent of the decline in its markets. However, order intake did suffer substantially and prospects for the immediate future are relatively poor.

There is no likelihood of the big increase in last year's second half being repeated and Whitham's rate of profits will be down overall on last year.

Sales for the half-year advanced from £22.18m to £27.85m. After tax of £1.85m (£1.06m), minorities

branches brought the volume
crease through into a good recovery
in profits.

In the manufacturing division
but again in the building relat

111

Commercial Union

2 MONTHS REVIEW

to 31st December 1982

announces the following unaudited results which have continued to be affected by the depressed world economic conditions and the substantial net losses sustained during 1982 amounting to £41m more than the previous

	1982 Unaudited £m	1981 Published £m
--	-------------------------	-------------------------

	370.1	330.4
	<u>1,808.0</u>	<u>1,514.5</u>
	<u><u>2,178.1</u></u>	<u><u>1,844.9</u></u>

ome	253.4	201.0
	(9.9)	(9.3)
	<u>243.5</u>	<u>191.7</u>

	40.7	25.1
result (analysis below)	(271.5)	(131.9)
panies' earnings	8.8	4.6
PRETAXATION AND MINORITIES	<u>21.5</u>	<u>22.5</u>

PRE TAXATION AND MINORITIES	21.5	89.5
Minorities	(7.7)	(21.5)
PER TAXATION AND MINORITIES	13.8	68.0
Profits 1979/81	28.2	-

	<u>42.0</u>	<u>68.0</u>
costs (after taxation)—see below	<u>(12.9)</u>	<u>—</u>
RIBUTABLE TO SHAREHOLDERS	29.1	68.0

PER SHARE		
Balance of life profits 1979/81	3.33p	16.54p
Balance of life profits 1979/81	10.19p	-

DEBTS' FUNDS	£1,047m	£824m
	£m	£m

dom	(198.0)	(85.6)
	(44.8)	(11.3)
	(13.0)	(7.7)

World	(7.8)	(23.0)
	(7.9)	(4.3)
	(271.5)	(131.9)

The underwriting loss for the Rest of the World reflected adverse experience in most Western European territories, offset by increased underwriting profits in the Far East.

The introduction of new processing and communication systems for our United Kingdom operations has enabled us to implement plans to reduce expenses. This will be achieved by the following:

increase was 16% (1981 20%), the effect of high interest rates. Staffing increased from £25.1m in 1980 to £28.5m in 1981. The company has a voluntary severance programme to reduce overall staff by 15% by the end of 1983 and to relocate approximately 10% of staff to offices outside the centre of London. The decision has also been taken to reduce staff levels within our

The solvency margin at the end of 1982 was

comparisons with 54% at the end of 1981. This represents a substantial increase in the value of investments during the year. In 1982 there were net realised investment gains of £70.8m, compared with net unrealised gains of £101.1m.

Dividend

The Directors believe that it is appropriate to maintain the dividend at its 1981 level in order to provide stable income to shareholders. The Directors accordingly recommend

for payment on 17th May 1983 a final dividend on the ordinary shares of the Company of 6.950p (1981 6.950p) per share together with the interim dividend of 4.850p (1981 4.850p) per share paid in November last, gives a total dividend for the year of 11.800p (1981 11.800p) per share.

sions were strengthened by about 11.800p (1981 11.800p) per share. These dividends, in preference dividends for 1982, amount to £48.7m (£48.5m) and require £19.6m to be transferred from profits and reserves. UK resident and certain foreign holders will be entitled to an imputation tax credit of

on, intense competitive pressures in writing operations and, combined with the fact that the company has been unable for many years, made 1982 an inability to obtain adequate rate of return on its investment in the company. The company's earnings per share for 1981 was 5.077p per share at current rates of tax, making a dividend for the year of 16.857p (1981 16.857p) per share.

The results of the Company's operations have been converted at the rates of exchange prevailing at the close of the periods reported. These were as follows:

	1982	1981
United States	\$1.62	\$1.01

all profit improved satisfactorily	Netherlands	Fls4.26	Fls4.72
and investment income. Non-life	Canada	\$2.00	\$2.26
policy lower than last year, with all			
economic recession and intense			

rate increases in motor and contributed to the improvement in the of non-life premium income was competition and our insistence

... ..

Commercial Union
Assurance Company plc

Assurance Company plc

[illegible]

NOTES
unless otherwise indicated and
with no prefix refer to U.S.
dollars (in last column) allow for a
Offered prices, include a
prices, e Yield based on offer
g Today's opening price
of UK taxes, p Period
plans, s Single premium
d price includes all expense
mission, y Offered price includes
through managers, z Previous
termly gross, # Suspende
ersey tax, ? Ex-subsidize
to charitable bodies, % Yield
annual rate of NAV increase

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SECTION III - INTERNATIONAL MARKETS

FINANCIAL TIMES

Wednesday February 23 1983

EEC tackles its
Mediterranean
problem, Page 29

WALL STREET

The mixed blessing of cheaper oil

BACK FROM their long weekend, New York stock investors had to face the implications of several economic developments on the domestic and international fronts. The prospect of reducing inflation in the U.S. was seen to be enhanced by the cut in oil prices by Nigeria and the possibility of similar moves by the Arab members of Opec.

Optimism regarding inflation was further encouraged by the latest estimates of U.S. gross national product published by the Commerce Department, which indicated an upward revision of earlier data. The Department's report also showed that prices in the final quarter of last year were rising at a slower rate than in the previous three months.

But the oil stocks fell sharply as analysts calculated the reduction in profits likely to follow price cuts. This depressed the Dow Jones industrial average which by 2pm was 7.39 lower at 1,085.43 in fairly active trading. At the close it was down 12.42 at 1,080.40.

Among the hardest hit of the oil majors were Exxon, 5% down by mid-session at 26 1/8; Atlantic Richfield, 3 1/2% off at 42 1/2; and Getty Oil, 2 1/2% lower at 53. Sell-

ing of oil stocks increased slightly following a report that a Saudi newspaper had disclosed agreement by the Gulf states to cut crude by between \$5.50 and \$7 a barrel.

But other industrial stocks were in two minds how to take the trend. The battered airline sector - where fuel costs are a major factor - moved higher.

Bond prices rose smartly, reflecting investors' hopes that the fall in inflation disclosed in the latest report on prices from the Commerce Department would be further stimulated by cuts in world oil prices. Major institutional investors began to buy some longer-maturing stocks, a clear indication that they take a slightly more positive view of the outlook for domestic inflation.

Gains ranged to around one point at the longer end of the list, with the benchmark 10% of 2013 that much better at 97 1/2 by one stage. Dealers commented yesterday brought a "modest increase" in demand for five to seven-year Treasury securities, "the first time in a long while".

Shorter maturities continued to find support but gains were usually under one point.

Also pushing the credit markets forward was a fall in the Federal Funds rate from an average of 8.42 per cent on Friday, the last trading day, to 8% per cent midway through yesterday's session. The Federal Reserve arranged an unusually large \$2bn in customer repurchase agreements at that level.

Yields on Treasury bills slipped lower, with the 91-day bills at 7.89/85 per cent,

compared with 7.98/94 per cent before the weekend, and the six-month bills down from 8.13/09 per cent to 8.06/02 per cent.

The markets were in buoyant mood, with dealers noting that the evidence of falling inflation would help Mr Volcker to cut nominal interest rates.

From the market standpoint, this would bring buyers in for the long-dated securities.

As the time drew near for this week's auction of Treasury bills, market dealers were estimating that the \$12.4bn auction would produce yields of about 7.85/90 per cent on the three-month and 8.00/05 per cent on the six-month bills.

A sharp downward trend in Toronto was extended yesterday as oil price concern dominated. Mr David McLeish of Walwyn Stodgell Cochran Murray said this was hurting not only the oil issues themselves but also the banks because of their international loans and exposure to the Canadian oil companies.

Gold also plunged with the bullion price, while in Montreal only the media sector showed any real resilience to the slide.

EUROPE

Rates trend aids firm undertone

THE TREND in short-term interest rates continued on the soft side in many centres yesterday, but on the bourses profit-takers often managed to gain the upper hand after widespread gains in stock values on Monday.

Frankfurt was a case in point. Professional operators moved in to sell, pulling the Commerzbank index 5.3 back from its near-four-year high to stand at 791.3. None the less, dealers described the underlying tendency as positive, and car-makers were one sector which continued to show strength.

Money market dealers said the Bundesbank seemed to have condoned a sharp drop in domestic market rates as an alternative to a pre-election cut in the discount or Lombard rates. Over the last 10 days call money has settled a half-point below Lombard at around 5% per cent.

Domestic bond prices were narrowly mixed after a sluggish session, and the central bank sold DM 9.7m of public paper against the previous day's DM 67.1m worth.

Dealers in Zurich noted a favourable interest rate outlook as an incentive to the continued rise in stock values and trading volume. Banks, too, were favoured, with the registered shares sought because of yield considerations.

Winterthur, in insurances, finished with gains pared to SwFr 2,100 after SwFr 2,200, still up from SwFr 2,075.

A further fall in French call money to 12 1/2% per cent, leaving it a quarter-point below the level on which it ended last week, heartened Paris stocks. Advances had a two-to-one lead on declines.

Vehicles were strong despite labour unrest in the industry. Peugeot added FFf 5 to FFf 142.50 and Valeo FFf 3 to FFf 230.

Late demand in Milan had its effect mainly in after-hours dealings, and the official close showed prices mixed. Fiat by that stage off L10 at L2.851 but reached as high as L2.450 later on expectations of a capital operation.

Yields on three-month Italian Treasury bills came back 44 basis points at the second February auction to 17.78 per cent, but six and 12-month bills remained unchanged.

A rally in Brussels was led by holding company stocks: Societe Generale was Bfr 52 ahead at Bfr 1,408 on its plans to expand capital, Bruxelles Lambert Bfr 14 at Bfr 1,670 and Sofina Bfr 25 to Bfr 4,050.

In otherwise depressed oils, Petrofina managed a Bfr 15 improvement to Bfr 4,705.

Royal Dutch suffered in Amsterdam, off Fl 2.90 at Fl 96.70, but no clear trend emerged overall. ABN featured with a Fl 6.50 gain at Fl 325 while KLM put on Fl 2.80 to Fl 158.50.

Trading continued heavily in Stockholm and stocks firmed further. Alfa-Laval soared SKr 25 to SKr 430 and Asea SKr 38 to SKr 500. Copenhagen came to life, with banks notably strong. Privatbanken added DKr 20 to DKr 225 and Danske Bank DKr 9.80 to DKr 248.

Madrid began its trading week with another downward drift, although construction leader Dragados firmed a peseta to Pta 121.

SOUTH AFRICA

Quiet easing

A BULLION price which contracted through the day left Johannesburg golds quietly easier. Heavyweight Western Holdings was R2.50 off at R64.50.

In mining financials, Amgold dropped R2.25 to R139.75 and De Beers 20 cents to R8.35, while elsewhere Impala Platinum held at R10.50 after interim results.

FAR EAST

Carbon copy day as Tokyo fades

A REPLICA of Monday's trading pattern in Tokyo yesterday left international populars again sharply weaker but mining and electric power issues displaying some strength. Still in the forefront of investors' concerns were the effects of lower world oil prices and the swelling levels of margin debt on the Japanese stock exchanges.

Figures released yesterday showed the outstanding balance of margin buying positions in Tokyo, Osaka and Nagoya above two trillion (million million) yen for the first time by the end of last week, despite the sell-off in blue chips which had set in by Thursday.

A rise on the week of Y32.4bn took the sum unpaid to a record Y2,026.9bn (\$8.72bn), pushed upward mainly by a consequent move into low-priced speculative such as the gold mines, paper pulps and shipping lines.

One of these, Japan Line, was volume leader yesterday on a subdued 17.82m shares, providing a further Y10 advance to Y245. It was followed by Tokai Corporation up Y3 at Y282, and Sumitomo Metal Mining, Y20 ahead at Y1,570.

But the extent of blue chip losses was acutely reflected in the Nikkei-Dow Jones market average, off 69.11 at 7,918.16 for a four-day setback of 227.25. The stock exchange index was 3.17 weaker at 579.00, but volume overall reached only some 300m units, down from Monday's moderate 350m.

Vehicle issues crumbled, partly on rumours that an influential domestic speculator may have started selling. Honda, which also suffered from news of low U.S. output, lost Y21 to Y850 and Nissan Y11 to Y716.

Traders were anxious to rid themselves of holdings in oil. Nippon Oil slid Y50 to Y940 and Mitsubishi Oil Y13 to Y353.

Government bond prices relinquished morning gains in thin trading, with bro-

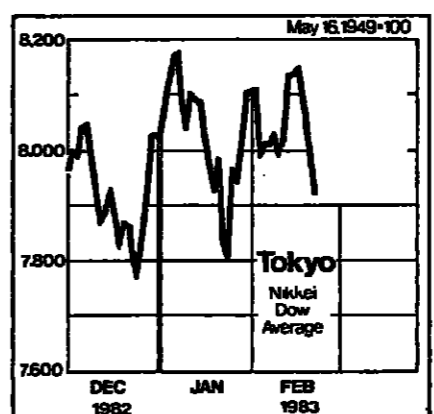
kers identifying national and regional commercial banks as among the sellers.

Ahead of the Hong Kong budget speech today, stocks there found selective support in cautious trading, leaving the Hang Seng index 6.70 up at 990.52. Overseas institutions were responsible for much of the buying, brokers said.

Trading houses generally moved lower, with losses of 10 cents for Swire Pacific A at HK\$11.90 and for Jardine Matheson at HK\$15. Banks were more resilient, and Hongkong Bank finished five cents up at HK\$9 and Wing Lung 50 cents higher at HK\$49.

An easier opening in Singapore was corrected by the close to leave the Straits Times industrial index a bare 0.07 off at 808.86. Banks were weaker but other sectors mixed.

United International Securities, an investment trust which was the day's most active, rose 15 cents to \$81.38 on improved results for the company itself but a sharp erosion of earnings by the group as a whole.



AUSTRALIA

Industrials low

IT WAS the turn of the industrials in Sydney yesterday to suffer from pre-election nerves, as a sharp turnaround in gold-related mines lifted the resource sector which had been severely depressed on Monday.

The golds benefited from a steady bullion trend, but base metal heavyweights were also favoured by bargain-hunters. GMR rose 20 cents to A\$12.40, Peko 16 cents to A\$36.36 and Western Mining seven cents to A\$37.72.

LONDON

Industrials resist pound's push

GROWING fears that Nigeria's oil price cut might provoke a price war among world producers again dominated sentiment on London financial markets yesterday. Sterling weakened further against major currencies and government stocks followed. Equity markets, however - although inhibited by these uncertainties and a continuing shortage of funds - put on another resilient performance on the view that lower oil prices would benefit UK manufacturing industry.

British funds were especially vulnerable to nervous offerings. Trading conditions were thin and quotations at the longer end were soon showing losses extending to 1 1/2 points but a modest rally developed in the afternoon to leave some quotations a quarter above the worst. Shorter maturities also staged a small recovery to close a maximum 3/4 down after 7/4.

Oils sustained another sharp setback. BP fell 10p more to 302p and Lasso 12p to 250p.

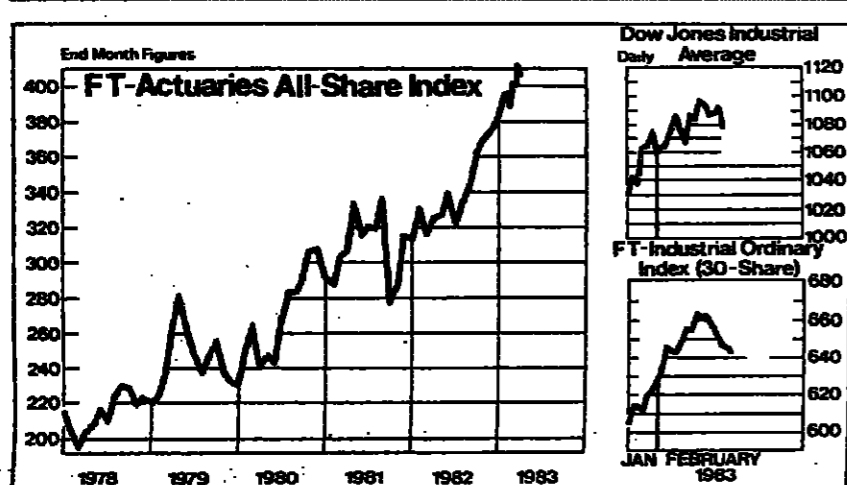
Leading industrials made a cautious start in the absence of a guide from Wall Street. The slightly lower values tempted buyers and losses of a few pence or so were soon regained. Interest subsequently faltered but the final tone was still steady to firm. The FT Industrial Ordinary index closed 2.2 down at 642.4.

A gentle downward drift in South African golds developed into a full-scale slide during hectic afternoon trading, after a sudden near-\$20 decline by bullion at around the opening of U.S. markets.

Among the heaviest losers, Hartbeest showed a 2 1/2% fall to £51 1/2. Selling of South African financials was persistent but less severe, while their London counterparts steadied after hours. Australians were hit by the downturn in metal prices.

Share information service,
Pages 30-31

KEY MARKET MONITORS



NEW YORK			
	Feb 22	Previous	Year ago
DJ Industrials	1080.40	1082.22	811.28
DJ Transport	482.19	480.70	338.28
DJ Utilities	123.62	124.12	105.6
S&P Composite	146.80	148.00	111.59

LONDON			
	Feb 22	Prev	Year ago
FT Ind Ord	642.4	644.5	559.0
FT-A All-shares	404.35	405.33	324.67
FT-A 500	437.81	439.2	342.75
FT-A Ind	413.41	412.84	315.33
FT Gold mines	671.3	708.9	249.4
FT Govt secs	78.55	79.54	66.80

TOKYO			
	Feb 22	Prev	Year ago
Nikkei-Dow	7918.16	7867.27	7758.36
Tokyo SE	579.0	582.17	572.97

AUSTRALIA			
	Feb 22	Prev	Year ago
All Ord	504.2	504.8	508.4
Metals & Mins	452.4	447.4	370.1

AUSTRIA			
	Feb 22	Prev	Year ago
Credit Aktien	48.89	48.92	54.71

BELGIUM			
	Feb 22	Prev	Year ago
Belgian SE	106.66	106.31	100.51

CANADA			
	Feb 22	Prev	Year ago
Toronto Composite	2075.7	2103.2	1656.6

FRANCE			
	Feb 22	Prev	Year ago
CAC 40	106.3	105.50	110.80
Ind. Tendance	111.8	110.30	122.3

WEST GERMANY			
	Feb 22	Prev	Year ago
FAZ-Aktien	263.75	265.21	229.74
Commerzbank	791.3	796.6	697.2

HONG KONG			
	Feb 22	Prev	Year ago
Hang Sang	990.52	983.82	1277.01

ITALY			
	Feb 22	Prev	Year ago
Banca Com.	206.35	205.76	201.55

NETHERLANDS			
	Feb 22	Prev	Year ago
ANP-CBS Gen	110.7	111.1	87.0
ANP-CBS Ind	97.1	97.2	69.4

NORWAY			
	Feb 22	Prev	Year ago
Oslø SE	147.74	151.25	107.95

SINGAPORE			
	Feb 22	Prev	Year ago
Straits Times	808.86	809.93	753.30

SOUTH AFRICA			
	Feb 22	Prev	Year ago
Gold	981.2	951.5	482.7
Industrial	852.6	855.9	698.3

SPAIN			
	Feb 22	Prev	Year ago
Madrid SE	103.21	103.4	104.91

SWEDEN			
	Feb 22	Prev	Year ago
J & P	1232.19	1198.78	804.03

SWITZERLAND			
	Feb 22	Prev	Year ago
Swiss Bank Ind	312.6	310.3	244.3

GOLD (per ounce)			
	Feb 22	Prev	Year ago
London	\$488.00	\$504.50	\$504.50
Frankfurt	\$488.25	\$504.75	\$504.75
Zurich	\$488.50	\$504.50	\$504.50
Paris	\$503.65	\$504.40	\$504.40
New York futures (Feb)	\$490.00	\$505.70	\$505.70

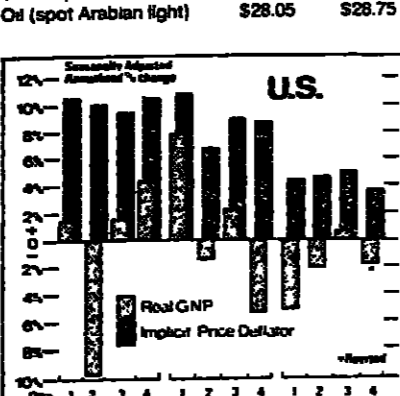
* Indicates latest pre-close figure

CURRENCIES			
	Feb 22	Previous	Feb 22
U.S. DOLLAR	1.5205	1.5340	-
DM	2.4120	2.3950	3.57
Yen	234.15	232.50	356.4
FFr	6.8400	6.7825	10.40
SwFr	2.0200	1.9930	3.07%
Outider	2.6675	2.6460	4.05%
Lira	1392%	1381%	2117
DR	47.51	47.16	72.25
CS	1.2290	1.2230	1.8635

INTEREST RATES			
	Feb 22	Prev	
Euro-currency (three month offered rate)			
£	11%	11%	
SwFr	3	3	
DM	5%	5%	
FFr	23	24	
FT London interbank funding (offered rate)			
3-month U.S.	9%	9%	
6-month U.S.	9%	9%	
U.S. Fed Funds	8%	8%	
U.S. 3-month CDs	8.65	8.7	
U.S. 3-month T-bills	7.88	7.98	

FINANCIAL FUTURES			
	Latest	High	Low
CHICAGO			
U.S. Treasury Bonds (CBT)			
8% 100,000 32nds of 100%	76-23	76-27	76-02
U.S. Treasury Bills (IMM)			
\$1m points of 100%	92.23	92.25	92.15
March	91.49	91.51	91.44
U.S. Treasury Notes (IMM)			
\$1m points of 100%	91.49	91.51	91.44
March	91.49	91.51	91.44
U.S. Treasury Bonds (IMM)			
\$1m points of 100%	91.49	91.51	91.44
March	91.49	91.51	91.44
U.S. Treasury Notes (IMM)			
\$1m points of 100%	91.49	91.51	91.44
March	91.49	91.51	91.44
U.S. Treasury Bonds (IMM)			
\$1m points of 100%	91.49	91.51	91.44
March	91.49	91.51	91.44

LONDON COMMODITY MARKETS			
	Feb 22	Prev	
Silver (spot fixing)	943p	935 3/4p	
Copper (cash)	£1094.00	£1097.00	
Coffee (March)	£1694.00	£1696.50	
Oil (spot Arabian light)	\$28.05	\$28.75	



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Ch'ge	Close Prev.	12 Month	P/ St	Ch'ge	Close Prev.
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Continued on Page 2

* Sales figures are unaudited. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

Farm incomes up 45% in 1982

that the workers' wages were up 4 per cent, in real terms, in 1975 while the farmers were down 23 per cent.

Sir Richard Butler, president of the National Farmers' Union, said that while the British Government highlighted the first good news for the industry following several years of very severe financial pressures, "if the recovery can be maintained, the British economy will benefit," he said.

But he stressed that the 1982 figures should be seen in the perspective. Despite the overall recovery, producers of pig and glasshouse products had a very difficult year in 1982 and now face grave financial problems, he said. "Special measures will be needed to overcome the immediate difficulties and to provide a basis for longer-term viability."

Mr Butler warned that the recovery could be short-lived unless the EEC farm price settlement reflected the rate at which farmers costs were rising. The NFU has supported CEEA, the European farmers' association, in its demand for a 10 per cent increase in EEC farm

monious enlargement of the Community," the pathway remains as stony as some olive groves and the differences—both national and in principle—are still considerable.

The southern nations of Italy and Greece, championed to some extent by France, are intent on extracting the best deal possible for their farmers to redress what they see as the continuing hardship of the common Agriculture Policy (CAP) in favour of the North.

On the other hand, the northern countries, especially Britain and West Germany, maintain that to meet southern demands fully might again over-extend the CAP financially.

(defence budget) lower oil prices could be bullish for silver and copper. The technical selling was so powerful that silver was down the limit and copper was charged down. Cotton was higher on expectation of a strong lower acreage bucking the strong weather. Sugar prices collapsed on the strong finishing limit—down with arbitrage and a heavy selling. Cattle were on momentum. Coffee and wheat also sharply lower. Wheat and soybeans were on a heavy selling. There was a general negative sentiment, while maize found support at lower levels, reported Hamble Commodities.

SUGAR	World	"11	112,000 lb.
cents/lb			
March	5.38	6.65	8.34
May	8.50	6.90	6.50
July	8.25	7.20	6.50
Sept	7.27	7.86	7.27
Oct	7.51	7.94	7.51
Nov	8.42	8.94	8.42
Dec	8.17	9.25	8.90
May	8.97	9.52	9.45

CHICAGO

LIVE CATTLE	World	"11	Low	Prev
March	8.50	6.90	6.50	7.05
May	8.25	7.20	6.50	7.05
July	7.27	7.86	7.27	7.77
Oct	7.51	7.94	7.51	8.01
Nov	8.42	8.94	8.42	8.95
Dec	8.17	9.25	8.90	9.05
May	8.97	9.52	9.45	9.26

April	84.62	85.25	84.37	84.22
June	85.50	86.17	85.36	85.36
August	83.97	84.70	83.96	84.02
Oct	81.85	82.35	81.77	82.02
Dec	82.70	83.25	82.70	82.90

	Cloze	High	Low	Prev
April	52.52	63.80	62.60	54.10
June	54.55	65.80	64.50	56.02
July	54.05	64.00	64.00	56.02
August	52.85	53.85	52.80	55.00
Oct	49.40	49.52	49.20	49.82
Dec	48.47	48.55	48.15	48.45
Feb	47.35	48.75	47.25	48.95
April	47.05	47.10	46.95	47.40

MAIZE 5,000 bu min, cents/50lb-bushel

	Cloze	High	Low	Prev
March	275.0	279.0	275.0	278.2
May	294.6	289.8	286.0	289.0
July	295.8	286.5	283.0	287.0
Sept	290.0	282.2	278.0	282.0
Dec	288.0	282.4	280.8	283.6
March	295.6	300.4	296.6	301.6
May	303.0	306.4	303.0	307.2

PORK BELLIES 38,000lb., cents/lb				
	Close	High	Low	Prev

	Close	High	Low	Prev
March	688.0	700.0	674.0	678.0
May	693.4	612.2	602.4	629.8
July	677.4	616.2	614.4	674.6
Sept	671.4	642.4	637.4	670.4
Nov	682.0	642.0	631.0	644.2
Jan	645.0	667.0	644.2	638.0
March	670.0	676.2	659.4	661.0

	Close	High	Low	Prev
March	178.8	179.0	176.0	178.5
May	180.0	179.0	176.7	179.5
July	180.0	179.0	176.0	178.5
Sept	180.0	179.0	176.0	178.5
Nov	180.0	179.0	176.0	178.5
Jan	180.0	179.0	176.0	178.5
March	180.0	179.0	176.0	178.5

Dec	197.0	194.5	191.0	181.5
Jan	194.0	198.5	192.0	197.5
March	197.5	200.5	197.0	201.0

SOYABEAN Oil 60,000lb., cents/lb				
	Close	High	Low	Prev
March	17.20	17.55	17.20	17.68
May	17.60	17.98	17.60	18.11
July	17.98	18.35	17.95	18.48
August	18.10	18.48	18.10	18.59
Sept	18.30	18.60	18.30	18.72
Oct	18.40	18.75	18.40	18.85
Dec	18.55	19.00	18.55	19.10
Jan	18.90	19.05	18.75	19.20
March	19.05	19.45	18.05	19.61

WHEAT		
bushel	5,000	bu min, cents/60th.
Close	100.00	100.00

May	244.4	254.0	244.0	244.4
July	254.6	361.4	357.6	355.6
Sept	362.4	372.0	362.4	362.4

	391.0	400.0	391.0	401.2
SPOT PRICES—Chicago loose lard				
17.25 (same) cents per pound. Handv				
and Harman bullion silver 141.00				
(1448.0) cents per troy ounces. New				
York tin 607.0-10.0 (608 D-12.0) cents				
per pound.				

LIVERPOOL—Spot and shipment
 sales amounted to 20 tonnes. Slow
 trading continued, with not much
 interest displayed in various styles.
 Only scattered contracts were fixed up
 and inquiry was relatively quiet, being

OIL AND GAS—Continued

OIL AND GAS—Continued									
	Stock	Price	% Chg.	Net	Cum.	YTD	PER		
34	Brasserie SC	131	0	0	0	0	0	0	0
35	Brasserie SC (red)	131	0	0	0	0	0	0	0
36	Burnham CI	128	0	0	0	0	0	0	0
37	California Oil	128	0	0	0	0	0	0	0
38	California Oil (red)	128	0	0	0	0	0	0	0
39	California Oil (red)	128	0	0	0	0	0	0	0
40	California Oil (red)	128	0	0	0	0	0	0	0
41	California Oil (red)	128	0	0	0	0	0	0	0
42	California Oil (red)	128	0	0	0	0	0	0	0
43	California Oil (red)	128	0	0	0	0	0	0	0
44	California Oil (red)	128	0	0	0	0	0	0	0
45	California Oil (red)	128	0	0	0	0	0	0	0
46	California Oil (red)	128	0	0	0	0	0	0	0
47	California Oil (red)	128	0	0	0	0	0	0	0
48	California Oil (red)	128	0	0	0	0	0	0	0
49	California Oil (red)	128	0	0	0	0	0	0	0
50	California Oil (red)	128	0	0	0	0	0	0	0
51	California Oil (red)	128	0	0	0	0	0	0	0
52	California Oil (red)	128	0	0	0	0	0	0	0
53	California Oil (red)	128	0	0	0	0	0	0	0
54	California Oil (red)	128	0	0	0	0	0	0	0
55	California Oil (red)	128	0	0	0	0	0	0	0
56	California Oil (red)	128	0	0	0	0	0	0	0
57	California Oil (red)	128	0	0	0	0	0	0	0
58	California Oil (red)	128	0	0	0	0	0	0	0
59	California Oil (red)	128	0	0	0	0	0	0	0
60	California Oil (red)	128	0	0	0	0	0	0	0
61	California Oil (red)								

OVERSEAS TRADERS									
	Stock	Price	% Chg.	Net	Cum.	YTD	PER		
16	African Lands	2nd	0	0	0	0	0	0	0
17	Aust. Agric. Soc.	115	0	0	0	0	0	0	0
18	Banque Ind. Afr.	115	0	0	0	0	0	0	0
19	Banque Ind. Afr.	115	0	0	0	0	0	0	0
20	Banque Ind. Afr.	115	0	0	0	0	0	0	0
21	Banque Ind. Afr.	115	0	0	0	0	0	0	0
22	Banque Ind. Afr.	115	0	0	0	0	0	0	0
23	Banque Ind. Afr.	115	0	0	0	0	0	0	0
24	Banque Ind. Afr.	115	0	0	0	0	0	0	0
25	Banque Ind. Afr.	115	0	0	0	0	0	0	0
26	Banque Ind. Afr.	115	0	0	0	0	0	0	0
27	Banque Ind. Afr.	115	0	0	0	0	0	0	0
28	Banque Ind. Afr.	115	0	0	0	0	0	0	0
29	Banque Ind. Afr.	115	0	0	0	0	0	0	0
30	Banque Ind. Afr.	115	0	0	0	0	0	0	0
31	Banque Ind. Afr.	115	0	0	0	0	0	0	0
32	Banque Ind. Afr.	115	0	0	0	0	0	0	0
33	Banque Ind. Afr.	115	0	0	0	0	0	0	0
34	Banque Ind. Afr.	115	0	0	0	0	0	0	0
35	Banque Ind. Afr.	115	0	0	0	0	0	0	0
36	Banque Ind. Afr.	115	0	0	0	0	0	0	0
37	Banque Ind. Afr.	115	0	0	0	0	0	0	0
38	Banque Ind. Afr.	115	0	0	0	0	0	0	0
39	Banque Ind. Afr.	115	0	0	0	0	0	0	0
40	Banque Ind. Afr.	115	0	0	0	0	0	0	0
41	Banque Ind. Afr.	115	0	0	0	0	0	0	0
42	Banque Ind. Afr.	115	0	0	0	0	0	0	0
43	Banque Ind. Afr.	115	0	0	0	0	0	0	0
44	Banque Ind. Afr.	115	0	0	0	0	0	0	0
45	Banque Ind. Afr.	115	0	0	0	0	0	0	0
46	Banque Ind. Afr.	115	0	0	0	0	0	0	0
47	Banque Ind. Afr.	115	0	0	0	0	0	0	0
48	Banque Ind. Afr.	115	0	0	0	0	0	0	0
49	Banque Ind. Afr.	115	0	0	0	0	0	0	0
50	Banque Ind. Afr.	115	0	0	0	0	0	0	0
51	Banque Ind. Afr.	115	0	0	0	0	0	0	0
52	Banque Ind. Afr.	115	0	0	0	0	0	0	0
53	Banque Ind. Afr.	115	0	0	0	0	0	0	0
54	Banque Ind. Afr.	115	0	0	0	0	0	0	0
55	Banque Ind. Afr.	115	0	0	0	0	0	0	0
56	Banque Ind. Afr.	115	0	0	0	0	0	0	0
57	Banque Ind. Afr.	115	0	0	0	0	0	0	0
58	Banque Ind. Afr.	115	0	0	0	0	0	0	0
59	Banque Ind. Afr.	115	0	0	0	0	0	0	0
60	Banque Ind. Afr.	115	0	0	0	0	0	0	0
61	Banque Ind. Afr.	115	0	0	0	0	0	0	0
62	Banque Ind. Afr.	115	0	0	0	0	0	0	0
63	Banque Ind. Afr.	115	0	0	0	0	0	0	0
64	Banque Ind. Afr.	115	0	0	0	0	0	0	0
65	Banque Ind. Afr.	115	0	0	0	0	0	0	0
66	Banque Ind. Afr.	115	0	0	0	0	0	0	0
67	Banque Ind. Afr.	115	0	0	0	0	0	0	0
68	Banque Ind. Afr.	115	0	0	0	0	0	0	0
69	Banque Ind. Afr.	115	0	0	0	0	0	0	0
70	Banque Ind. Afr.	115	0	0	0	0	0	0	0
71	Banque Ind. Afr.	115	0	0	0	0	0	0	0
72	Banque Ind. Afr.	115	0	0	0	0	0	0	0
73	Banque Ind. Afr.	115	0	0	0	0	0	0	0
74	Banque Ind. Afr.	115	0	0	0	0	0	0	0
75	Banque Ind. Afr.	115	0	0	0	0	0	0	0
76	Banque Ind. Afr.	115	0	0	0	0	0	0	0
77	Banque Ind. Afr.	115	0	0	0	0	0	0	0
78	Banque Ind. Afr.	115	0	0	0	0	0	0	0
79	Banque Ind. Afr.	115	0	0	0	0	0	0	0
80	Banque Ind. Afr.	115	0	0	0	0	0	0	0
81	Banque Ind. Afr.	115	0	0	0	0	0	0	0
82	Banque Ind. Afr.	115	0	0	0	0	0	0	0
83	Banque Ind. Afr.	115	0	0	0	0	0	0	0
84	Banque Ind. Afr.	115	0	0	0	0	0	0	0
85	Banque Ind. Afr.	115	0	0	0	0	0	0	0
86	Banque Ind. Afr.	115	0	0	0	0	0	0	0
87	Banque Ind. Afr.	115	0	0	0	0	0	0	0
88	Banque Ind. Afr.	115	0	0	0	0	0	0	0
89	Banque Ind. Afr.	115	0	0	0	0	0	0	0
90	Banque Ind. Afr.	115	0	0	0	0	0	0	0
91	Banque Ind. Afr.	115	0	0	0	0	0	0	0
92	Banque Ind. Afr.	115	0	0	0	0	0	0	0
93	Banque Ind. Afr.	115	0	0	0	0	0	0	0
94	Banque Ind. Afr.	115	0	0	0	0	0	0	0
95	Banque Ind. Afr.	115	0	0	0	0	0	0	0
96	Banque Ind. Afr.	115	0	0	0	0	0	0	0
97	Banque Ind. Afr.	115	0	0	0	0	0	0	0
98	Banque Ind. Afr.	115	0	0	0	0	0	0	0
99	Banque Ind. Afr.	115	0	0	0	0	0	0	0
100	Banque Ind. Afr.	115	0	0	0	0	0	0	0

PLANTATIONS									
	Stock	Price	% Chg.	Net	Cum.	YTD	PER		
1	Anglo-Indians	75	0	0	0	0	0	0	0
2	Barber Hings, 10c	75	0	0	0	0	0	0	0
3	Barber Hings, 10c	75	0	0	0	0	0	0	0
4	Barber Hings, 10c	75	0	0	0	0	0	0	0
5	Barber Hings, 10c	75	0	0	0	0	0	0	0
6	Barber Hings, 10c	75	0	0	0	0	0	0	0
7	Barber Hings, 10c	75	0	0	0	0	0	0	0
8	Barber Hings, 10c	75	0	0	0	0	0	0	0
9	Barber Hings, 10c	75	0	0	0	0	0	0	0
10	Barber Hings, 10c	75	0	0	0	0	0	0	0
11	Barber Hings, 10c	75	0	0	0	0	0	0	0
12	Barber Hings, 10c	75	0	0	0	0	0	0	0
13	Barber Hings, 10c	75	0	0	0	0	0	0	0
14	Barber Hings, 10c	75	0	0	0	0	0	0	0
15	Barber Hings, 10c	75	0	0	0	0	0	0	0
16	Barber Hings, 10c	75	0	0	0	0	0	0	0
17	Barber Hings, 10c	75	0	0	0	0	0	0	0
18	Barber Hings, 10c	75	0	0	0	0	0	0	0
19	Barber Hings, 10c	75	0	0	0	0	0	0	0
20	Barber Hings, 10c	75	0	0	0	0	0	0	0
21	Barber Hings, 10c	75	0	0	0	0	0	0	0
22	Barber Hings, 10c	75	0	0	0	0	0	0	0
23	Barber Hings, 10c	75	0	0	0	0	0	0	0
24	Barber Hings, 10c	75	0	0	0	0	0	0	0
25	Barber Hings, 10c	75	0	0	0	0	0	0	0
26	Barber Hings, 10c	75	0	0	0	0	0	0	0
27	Barber Hings, 10c	75	0	0	0	0	0	0	0
28	Barber Hings, 10c	75	0	0	0	0	0	0	0
29	Barber Hings, 10c	75	0	0	0	0	0	0	0
30	Barber Hings, 10c	75	0	0	0	0	0	0	0
31	Barber Hings, 10c	75	0	0	0	0	0	0	0
32	Barber Hings, 10c	75	0	0	0	0	0	0	0
33	Barber Hings, 10c	75	0	0	0	0	0	0	0
34	Barber Hings, 10c	75	0	0	0	0	0	0	0
35	Barber Hings, 10c	75	0	0	0	0	0	0	0
36	Barber Hings, 10c	75	0	0	0	0	0	0	0
37	Barber Hings, 10c	75	0	0	0	0	0	0	0
38	Barber Hings, 10c	75	0	0	0	0	0	0	0
39	Barber Hings, 10c	75	0	0	0	0	0	0	0
40	Barber Hings, 10c	75	0	0	0	0	0	0	0
41	Barber Hings, 10c	75	0	0	0	0	0	0	0
42	Barber Hings, 10c	75	0	0	0	0	0	0	0
43	Barber Hings, 10c	75	0	0	0	0	0	0	0
44	Barber Hings, 10c	75	0	0	0	0	0	0	0
45	Barber Hings, 10c	75	0	0	0	0	0	0	0
46	Barber Hings, 10c	75	0	0	0	0	0	0	0
47	Barber Hings, 10c	75	0	0	0	0	0	0	0
48	Barber Hings, 10c	75	0	0	0	0	0	0	0
49	Barber Hings, 10c	75	0	0	0	0	0	0	0
50	Barber Hings, 10c	75	0	0	0	0	0	0	0
51	Barber Hings, 10c	75	0	0	0	0	0	0	0
52	Barber Hings, 10c	75	0	0	0	0	0	0	0
53	Barber Hings, 10c	75	0	0	0	0	0	0	0
54	Barber Hings, 10c	75	0	0	0	0	0	0	0
55	Barber Hings, 10c	75	0	0	0	0	0	0	0
56	Barber Hings, 10c	75	0	0	0	0	0	0	0
57	Barber Hings, 10c	75	0						

[illegible]

Albany Inv. 20p	49	-----	Exch. 15ec 1983	£100	-----
Bertrams	17 1/2	-----	Nat. 3 1/2 % 84/89	£820	+ 1/2
Big Wtr. Est. 50p	48 1/2	-----	Fin. 1 3/4 % 97/02	£940	+ 1/2
Craig & Rose	£12 1/2	-----	Alliance Gas	£10	-----

[illegible]

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling remains very nervous

Sterling's closing trade-weighted index of 78.7 was the lowest since June 1978. Continuing nervousness about the world oil price situation put renewed pressure on the pound, which weakened sharply against the dollar and Continental currencies, before staging a partial recovery towards the close. A report that the Gulf states are considering a cut of \$4 a barrel in the price of oil came too late to influence trading.

The dollar was very firm after the long weekend holiday in the U.S., particularly against the Swiss franc which lost ground on a large selling order out of the International Monetary Market in Chicago.

DOLLAR — Trade-weighted index (Bank of England) 119.3 against 120.2 six months ago. The dollar still shows a small rise on the year because U.S. interest rates have not fallen as expected. High Federal funds requirements have also kept rates firm, while recent indications of a more accommodative monetary policy have tempered hopes of a cut in the discount rate have so far had little effect on the exchange rate.

The dollar rose to 2.4120 from DM 2.3990 against the D-mark; to FF 6.8245 against the French franc; to SwFr 2.02 from

SwFr 1.9930 in terms of the Swiss franc; and to Y34.15 from Y32.50 against the Japanese yen, M/C 2 4

STERLING — Trading range against the dollar in 1982-83 is 1.5265 to 1.5150, January average 1.5375. Trade-weighted index 78.7, against 79.3 at noon, 80.1 at the opening, 80.2 at the previous close, and 91.5 six months ago. Sterling has renewed its recent decline and is still very weak and vulnerable. Factors suggested as causing the weakness are lower oil prices and uncertainty about an early general election. Falling inflation, a decreasing budget deficit and one of the largest trade surpluses of any major industrialized nation appear to have been ignored for the time being. Sterling touched a high point

of \$1.5315-1.5325 in early trading, but weakened steadily to a low of \$1.5165-1.5175, before recovering slightly to \$1.5200-1.5210 at the close, a fall of 1.35 cents on the day. The pound fell to DM 2.367 from DM 2.3750; to FF 6.8245 from FF 6.8205; to Y34.15 from Y32.50; to SwFr 2.02 from SwFr 1.9930. The D-mark trading range against the dollar in 1982-83 is 2.5940 to 2.4100, January average 2.5990. Trade-weighted index 128.6 against 125.4 six months ago. The D-mark has been unsettled in the run-up to the March general election. Favourable trade figures and little hope of a cut in interest rates before March have helped to underpin the currency, however, and sentiment has improved recently on the weakening of the dollar.

EMS EUROPEAN CURRENCY UNIT RATES

ECU	Current amount against ECU	% change from central rate	% change adjusted for divergence	Divergence limit
Belgian Franc	44.8904	-0.03	-0.53	-1.5500
Dutch Guilder	36.3636	-0.03	-0.53	-1.5500
French Franc	6.5596	-0.03	-0.53	-1.5500
Italian Lira	1936.27	-0.03	-0.53	-1.5500
Spanish Peseta	166.64	-0.03	-0.53	-1.5500
Portuguese Escudo	200.48	-0.03	-0.53	-1.5500
Irish Punt	0.787564	-0.03	-0.53	-1.5500
Swiss Franc	2.00	-0.03	-0.53	-1.5500

Changes are in ECU, showing positive change denotes a weak currency. Adjustment calculated by Financial Times.

OTHER CURRENCIES

Feb. 22	£	\$	Note Rates
Argentina Peso	88.815	88.845	58.400 58.450
Australian Dollar	1.5710	1.5750	1.0360 1.0365
Brazil Cruzeiro	576.83	580.52	12.90 13.00
Canadian Dollar	0.81387	0.81387	0.6400 0.6400
Chinese Yuan	15.83	15.83	83.40 83.40
Hong Kong Dollar	10.021	10.041	6.5975 6.6025
Indian Rupee	12.25	12.25	8.95 8.95
Kuwait Dinar	0.4420	0.443	0.3900 0.3900
Luxembourg Franc	72.20	72.30	47.50 47.50
Mexican Dollar	6.4513	6.4513	2.50 2.50
New Zealand Dollar	1.0555	1.0555	1.3870 1.3870
Saudi Arab Rial	1.2155	1.2155	8.4500 8.4500
Singapore Dollar	1.3775	1.3775	2.0675 2.0675
South African Rand	1.6445	1.6445	1.0815 1.0820
U.A.E. Dirham	1.5850	1.5850	6.5720 6.5720

*Selling rates

THE DOLLAR SPOT AND FORWARD

Feb. 22	Day's spread	Close	One month	% Three months	% p.a.
U.S.	1.5185-1.5225	1.5200-1.5210	0.32-0.27c	pm	2.27
Canada	1.8800-1.8750	1.8800-1.8800	0.30-0.20c	pm	1.82
Netherlands	4.03-4.07	4.05-4.06	2-1/2c	pm	6.41
Belgium	71.70-72.50	72.20-72.30	0.20-0.20c	pm	2.77
Denmark	12.94-13.02	12.94-13.02	0.20-0.20c	pm	2.77
Ireland	1.0800-1.1000	1.0900-1.1070	0.20-0.20c	pm	2.77
W. Ger.	3.64-3.68	3.66-3.67	2-1/2c	pm	5.72
Portugal	128.70-130.50	129.50-130.50	0.20-0.20c	pm	2.77
Spain	194.50-198.00	197.40-197.70	145-200c	pm	5.72
Italy	207-219	218-218	12-17c	pm	10.30
Norway	10.74-10.76	10.74-10.76	0.20-0.20c	pm	2.77
France	10.33-10.41	10.35-10.40	7-1/2c	pm	11.15
Sweden	11.23-11.31	11.25-11.30	par-Vene	pm	0.31
Japan	352-358	352-358	1.45-1.45c	pm	4.55
Austria	25.63-25.85	25.63-25.85	12-10c	pm	5.12
Switz.	3.04-3.09	3.06-3.07	2-1/2c	pm	8.14

Belgian rate for convertible francs. Financial Times 75.30-75.40. Swiss month forward dollar 1.50-1.45c. pm. 12-month 1.55-1.80c. pm.

EXCHANGE CROSS RATES

Feb. 22	Pound Sterling	U.S. Dollar	Deutschmark	Japanese Yen	French Franc	Swiss Franc	Dutch Guilder	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1	1.531	3.570	16.40	10.40	0.078	2.117	1.854	78.85	78.85
U.S. Dollar	0.658	1	2.414	6.840	2.021	0.058	1.698	1.226	47.52	47.52
Deutschmark	0.272	0.414	1	2.834	0.837	0.025	0.788	0.508	19.59	19.59
Japanese Yen	1.5700	2.807	4.268	10.30	10.00	0.291	5.948	5.331	202.8	202.8
French Franc	0.0962	0.1463	0.5259	0.4825	10	2.954	3.901	1.792	69.47	69.47
Swiss Franc	0.5385	0.4985	1.194	115.9	3.365	1	689.0	0.607	25.52	25.52
Dutch Guilder	0.246	0.378	0.904	87.80	2.563	0.787	1	0.459	17.81	17.81
Italian Lira	0.0172	0.018	0.168	16.8	4.913	1.917	1.000	0.080	84.13	84.13
Canadian Dollar	0.587	0.816	1.969	191.2	5.081	1.649	2.177	1.135	38.77	38.77
Belgian Franc	0.384	2.104	5.080	498.1	14.39	4.253	5.616	2.570	100	100

MONEY MARKETS

London rates show a firmer tone

Interest rates had a firmer tone on the London money market yesterday, although continued nervousness about sterling on the foreign exchanges was not translated into any very sharp short.

The short end of the market was kept stable by a much smaller day-to-day credit shortage. This was forecast at £200m by the Bank of England, compared with £150m on Monday. In the interbank market overnight money opened at 11-11 1/2 per cent, and was around 11 1/2 per cent to 11 1/4 per cent for most of the day, before falling sharply to 8 per cent at the close.

The major factors behind yesterday's shortage were: bills maturing in official hands and a net take-up of Treasury bills by the market, absorbing £221m, with the winding of bill repurchase agreements draining another £176m. These were partly offset by Exchequer transactions, which added £150m to liquidity, and a fall in the note circulation of some £130m.

Total help by the Bank of England was £238m. Before lunch the authorities bought £52m bank bills in hand 1 (up to 14 days maturity) at 11 per cent, and £131m bank bills in

LONDON MONEY RATES

Feb. 22	Sterling	Interbank	Local Authority	Local Authority	Finance	House	Discount	Comp. Treasury	Eligible	Fine
Overnight	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2
2 days notice	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2
7 days notice	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2
One month	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2
Three months	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2
Six months	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2
One year	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2
Two years	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2

ECGD Fixed Rate Export Finance Scheme IV Average Rate for interest period January 5 to February 1 1983 (inclusive) 11.27 per cent.

Local authorities and finance houses seven days notice others seven days fixed. Long-term local authority mortgage rates normally three years 11 1/2 per cent; four years 11 1/2 per cent; five years 11 1/2 per cent. Bank bill rates in table are buying rates for prime paper. Buying rate for four month bank bills 10 1/2 per cent; four month trade bills 11 1/2 per cent.

Approximate selling rate for one month Treasury bills 10 1/2 per cent; two months 10 1/2 per cent and three months 10 1/2 per cent. Approximate selling rate for one month bank bills 11 1/2 per cent; two months 10 1/2 per cent and three months 10 1/2 per cent. Trade bills 11 1/2 per cent; two months 10 1/2 per cent and three months 10 1/2 per cent. Finance Houses Base Rates (published by the Finance Houses Association) 11 per cent from February 1, 1983. London and Scottish Clearing Bank Rates for lending 11 per cent. London Deposit Rates for sums at seven days 8 per cent.

Treasury Bills: Average tender rate of discount 10.545 per cent. Certificate of Deposit (Series B). Deposits of £50,000 and over held under one month 11 1/2 per cent; one month month 11 1/2 per cent; three month month 11 1/2 per cent; six month month 11 1/2 per cent. Under £100,000 11 per cent from February 23. Deposits held under Series B-5 11 1/2 per cent. The rate for all deposits withdrawn for cash 8 1/2 per cent.

INTEREST RATES

EURO-CURRENCY INTEREST RATES (Market closing rates)

Feb. 22	Short term	7 days notice	Month	Three months	Six months	One year
Sterling	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2	11-11 1/2
U.S. Dollar	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
Can. Dollar	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
D. Guilder	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2
S. Franc	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Deutschmark	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2
French Franc	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2	12 1/2
Italian Lira	16 1/2	16 1/2	16 1/2	16 1/2	16 1/2	16 1/2
Swiss Franc	11 1/2	11 1/2	11 1/2	11 1/2	11 1/2	11 1/2
Yen	11 1/2	11 1/2	11 1/2	11 1/2	11 1/2	11 1/2
K. Krone	11 1/2	11 1/2	11 1/2	11 1/2	11 1/2	11 1/2
Aus \$	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2

FT LONDON INTERBANK FIXING

3 month U.S. dollars	6 month U.S. dollars
bid 9	offer 9.18
bid 9.18	offer 9.515

The fixing rates are the arithmetic means, rounded to the nearest one-eighth, of the bid and offered rates for \$10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Paribas and Morgan Guaranty Trust.

FINANCIAL FUTURES

Gilts depressed

The gilt contract weakened on the London International Financial Futures Exchange yesterday, reflecting the fall of prices in cash trading as sterling lost ground on the foreign exchanges. Futures prices touched their lows as sterling fell sharply on news that North Sea oil had declined to a four-year low on the Rotterdam spot market, with Brest oil trading at \$27.55 a barrel. There was a slight recovery towards the close, however, as long-dated interest rate futures opened firmer in Chicago. The March price closed at 100.36 from an opening of 101.05, and a previous finishing level of 101.23. The lowest price touched was 100.12 a turnover of 1.516 lots. June volume was 337 lots.

The three-month sterling deposit also eased on the futures

market as sterling weakened, with June falling to 89.39 from 89.80 at the opening. This trend was encouraged by a firmer tone to interest rates on the London money market. The June contract was quite actively traded at 1,190 lots, ending 42 basis points from the previous close, while the fairly lightly traded March contract of 232 lots fell 27 points to 88.88.

The Eurodollar pit was also rather more active, managing a total of over 1,000 lots. Prices were very stable, finishing virtually unchanged on the day, at 91.3 for March delivery and 90.84 for June. The March price touched a peak of 91.17, and June 90.85, with both contracts showing ranges of only 6 basis points throughout.

LONDON

THREE-MONTH EURODOLLAR	51m points of 100%
March	91.17
June	90.84
Sept	90.49
Dec	90.24
March	89.97
Volume	1,590 (265)
Previous day's open int.	2,919 (2,928)

THREE-MONTH STERLING DEPOSIT	250,000 points of 100%
March	89.39
June	89.39
Sept	89.39
Dec	89.39
March	89.39
Volume	1,590 (488)
Previous day's open int.	2,428 (2,489)

30-YEAR 12% NATIONAL GILT	250,000 points of 100%
March	100.36
June	100.36
Sept	100.36
Dec	100.36
March	100.36
Volume	100.36

U.S. TREASURY BONDS (CBT) 8%	100,000 points of 100%
March	92.22
June	92.22
Sept	92.22
Dec	92.22
March	92.22
Volume	92.22

U.S. TREASURY BILLS (IMM) 51m	points of 100%
March	92.22
June	92.22
Sept	92.22
Dec	92.22
March	92.22
Volume	92.22

CERT. DEPOSIT (IMM) 51m points	of 100%
March	92.22
June	92.22
Sept	92.22
Dec	92.22
March	92.22
Volume	92.22

THREE-MONTH EURODOLLAR (IMM)	51m points of 100%
March	91.30
June	90.84
Sept	90.49
Dec	90.24
March	89.97
Volume	1,590 (265)

THREE-MONTH STERLING DEPOSIT (IMM)	250,000 points of 100%
March	89.39
June	89.39
Sept	89.39
Dec	89.39
March	89.39
Volume	1,590 (488)

DEUTSCHE MARKS DM 125,000 \$ per	DM
March	0.417
June	0.417
Sept	0.417
Dec	0.417
March	0.417
Volume	0.417

SWISS FRANS Sfr 125,000 \$ per	Sfr
March	0.503
June	0.503
Sept	0.503
Dec	0.503
March	0.503
Volume	0.503

JAPANESE YEN Y12.5m \$ per Y100	Y
March	0.422
June	0.422
Sept	0.422
Dec	0.422
March	0.422
Volume	0.422

PREVIOUS DAY'S OPEN INT.	INT.
March	11.27
June	11.27
Sept	11.27
Dec	11.27
March	11.27
Volume	11.27

FINANCIAL TIMES SURVEY

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Editorial production for this survey by Mike Smith
Photography: Terry Kirk
Graphics: Marion Sedgwick

Kuwait

Limiting the damage

OVER the last three years life has become more difficult for all the oil states of the Gulf. The Iranian revolution, the Iran-Iraq war and the fall in oil revenues over the last year have all made their impact.

However, in Kuwait public attention has been dominated, almost to the exclusion of everything else, by the rise and fall of the unofficial stockmarket. Its collapse last autumn will have lasting repercussions both for Kuwait's economy and society. The web of post-dated cheques totalling \$94bn cannot easily be disentangled.

The significance of the Souq al-Manakh cannot be overestimated but the Iran-Iraq war still rages 100 miles from Kuwait will surely have more impact on the long term future of the city state. At stake is nothing less than the future political shape of the Gulf. It is a conflict which Kuwait, like Saudi Arabia and its other neighbours can influence, but whose final outcome is beyond their capacity to determine.

Since the start of the war, Kuwait has given subsidies to Iraq but these are swallowed up by the needs of Iraq's war machine. For the moment Baghdad is holding its own but the Iraqi population is only one third of that of Iran. Its oil production is down to below 650,000 barrels a day. Prolonged attrition is bound to favour the Government of Ayatollah Khomeini.

Kuwait is loathe to continue to add to the \$6bn it has already given Iraqi President

By PATRICK COCKBURN

Saddam Hussein, particularly at a moment when its own oil revenues are increased. But it may have no choice. The days when Kuwait could act as a mediator in the Middle East are not over but the usefulness of mediation is much reduced. The capture of the port city of Khormashahr last May and Israel's invasion of Lebanon in June marked a change in Middle East politics. Conflicts have grown too serious to be settled by mediators.

The threat of the Iranian revolution is external rather than domestic. There may be some pictures of Ayatollah Khomeini in Shia districts in Kuwait but the population is too rich for militant Islamic fundamentalism to have a sustained impact on the popular imagination. Some brightly coloured orange signs point the way to air raid shelters in Kuwait city but few take them seriously.

Indeed Kuwait has a greater sense of the extent and limitations of its influence in the Gulf than many of the other members of the Gulf Co-operation Council. It has invested little in new defence systems on the grounds that their practical purpose is limited. The army is small.

So long as Iran and Iraq fight each other to a standstill there is little enough for Kuwait to

worry about. The anxiety for the Kuwaitis is that Iraq will crack under the strain and they will find a triumphant Iranian army on their borders.

The Iran-Iraq war has also played a crucial role in determining Kuwait's oil policy. As spot prices rose in the immediate aftermath of the start of the conflict Kuwait charged its customers premiums. Oil revenues soared. It has only been over the past year that Kuwait has had to deal with the prolonged slump in crude prices and the incapacity of the Organisation of Petroleum Exporting Countries to impose a quota system for production at the official price.

This matters less for Kuwait than it does for many of its neighbours. Its total reserves, estimated to be \$75-\$80bn, are sufficient to cope with shortfalls in revenue. Secondly most of Kuwait's infrastructure is already built. The projects can easily be cut back without too many difficulties.

Even with oil production of around 650,000 barrels a day, investment income is over \$8bn. This puts Kuwait in a very different league from oil producers like Libya or even the United Arab Emirates. Nevertheless, current oil production rates are much too low to be comfortable over a long period.

Bitterness

Paying for the Souq al-Manakh debacle will clearly be a considerable drain on the Government's resources. But now it has decided that it is not going to bail out everybody the overall losses to the state may not be as great as they first appeared. The money going into propping up the official stockmarket and the real estate market is not being thrown away.

The most interesting consequence of the Souq al-Manakh crash is less on the finances of the state than on Kuwaiti society itself. It is still too early to calculate the long term

influence of the Souq collapse. There is deep bitterness between those who lost and those who made money. There is also the division between the nouveau riche and the traditional billionaires at the top of the merchant oligarchy.

Thus, like all other social divisions in Kuwait, has been exacerbated by the aftermath of the Souq crash but one suspects that the long term social impact of what occurred may be exaggerated. The critical division in Kuwait is between nationals and non-nationals and this distinction is not affected by the Souq.

Like the other oil producers on the western side of the Gulf, Kuwait is a caste society. The distinction between citizens and non-citizens, as elsewhere in the region, is being more rigidly enforced. This long-term

The collapse of the unofficial stockmarket has dominated public attention during the last year. However, in the long term the Gulf war may have more far-reaching consequences

trend is more important than the deep but probably transient bitterness between winners and losers on the souq al-Manakh.

Lack of action

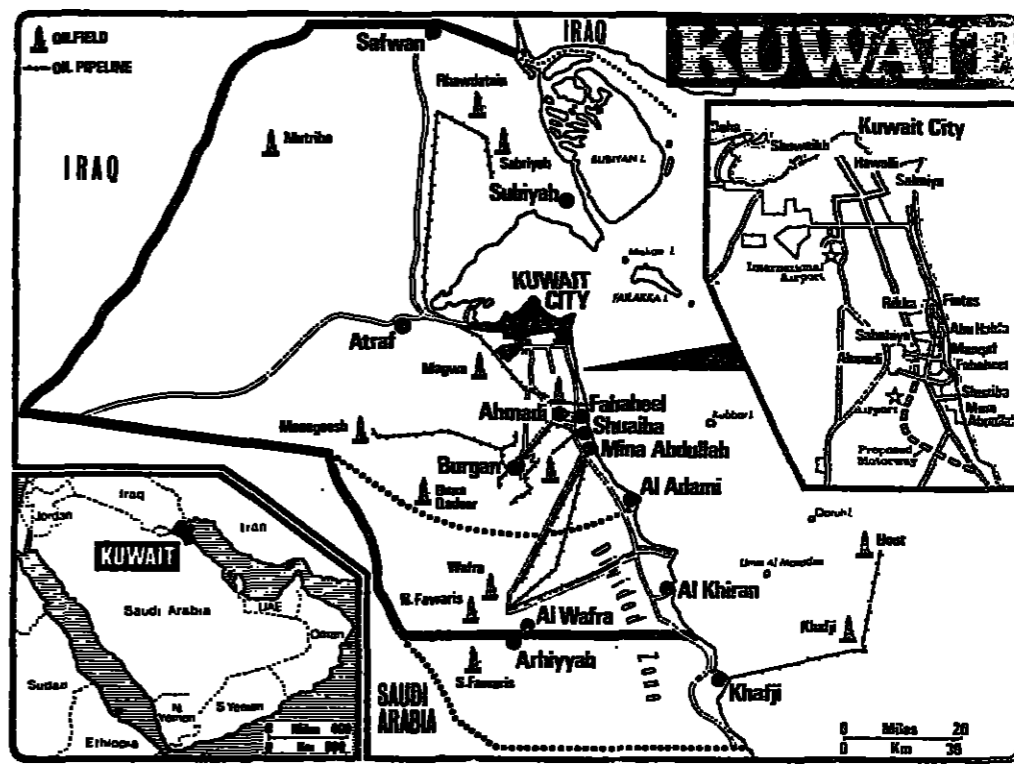
How much could the Government have done to avert the crash? Once the gambling fever was raging it could not have done a lot. If, however, the existing laws had been enforced earlier then the speculation in Gulf shares and the whole system of post-dated cheques might never have got off the ground; certainly not in the spectacular fashion seen last spring.

The reason for the Government's lack of action was largely an understandable failure to see that the bubble would develop until it was too late to stop it. It was also a function of the fact that so

many senior figures in the administration were involved directly or indirectly in the Souq and had their vested interests to protect.

It will take years to disentangle the mess left by the collapse of the paper mountain of credit created by the Souq. This is bound to have a depressing impact on the general level of business. But not everything should be blamed on the unofficial market: the Iran-Iraq war, the financial difficulties of Iraq and the smallness of the market in Kuwait have all had a depressing effect.

The Government has the capacity to limit the damage done by the Souq collapse. The outcome of the war between the two great powers to the north of Kuwait will in the long term be far more important.



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consolidated our leadership in the home market, and

continued to increase and diversify our overseas business."

Mohamed Abdul Mohsin Al-Kharafi, Chairman.

BALANCE SHEET
at 31st December 1982

Assets			Liabilities			
1981 Kuwaiti Dinars		1982 Kuwaiti Dinars	1982 US \$ equivalent	1981 Kuwaiti Dinars	1982 Kuwaiti Dinars	1982 US \$ equivalent
136,790,710	Cash and Balances with Banks	100,034,598	346,519,848		Demand and Time Deposits and Other Accounts including Contingencies	2,178,065,767
				1,851,947,780		7,544,819,816
279,829,426	Money at Call and Short Notice with Banks	174,599,383	604,812,263	4,835,323	Proposed Dividend	6,285,920
						21,774,427
43,000,000	Treasury Bills	130,000,000	450,320,000	1,856,783,103	Total Liabilities	2,184,351,687
						7,566,594,243
36,443,080	Bankers' Negotiable Certificates of Deposits	63,867,490	221,236,985		Shareholders' Equity	
30,216,781	Quoted Investments	28,071,777	97,240,636		Share Capital: Authorised and issued-shares of KD 1 each fully paid	34,921,779
				26,862,907		120,969,043
467,188,666	Deposits with Banks	747,853,869	2,590,565,802	27,492,800	Reserves: Statutory (including share premium account KD 37,861,537)	48,296,837
						167,300,243
885,656,768	Loans, Overdrafts and Discounts	1,002,616,961	3,473,065,152	41,364,700	General	53,364,700
						184,855,321
25,437,987	Unquoted Investments	28,099,989	97,338,362	604,920	Undistributed Profits	319,420
						1,106,471
1	Land, Premises and Equipment	1	3			
48,545,011	Other Assets	46,110,355	159,726,270	96,325,327	Total Shareholders' Equity	136,902,736
						474,231,078
1,953,108,430	Total Assets	2,321,254,423	8,040,825,321	1,953,108,430	Total Liabilities and Shareholders' Equity	2,321,254,423
						8,040,825,321
610,572,069	Liability of Customers for Letters of Credit, Acceptances & Guarantees	639,984,286	2,216,905,566	610,572,069	Letters of Credit, Acceptances and Guarantees on behalf of Customers	639,984,286
						2,216,905,566
2,563,680,499		2,961,238,709	10,257,730,887	2,563,680,499		2,961,238,709
						10,257,730,887

KD1 = US\$ 3.46

KD1 = US\$ 3.46

PROFIT AND LOSS STATEMENT
for the year ended 31st December 1982

1981 Kuwaiti Dinars	1982 Kuwaiti Dinars	1982 US \$ equivalent
Profit after charging all expenses, making provisions for contingencies and writing down assets	16,000,406	69,281,455
Balance brought forward	539,837	2,095,443
	16,540,243	71,376,898
Transferred to Statutory Reserve	1,600,000	6,928,000
Transferred to General Reserve	9,500,000	41,568,000
Proposed Dividend of 18% (KD 0.180 per share) payable 1 February 1983	4,835,323	21,774,427
	15,935,323	70,270,427
Balance carried forward	604,920	1,106,471
		KD1 = US\$ 3.46

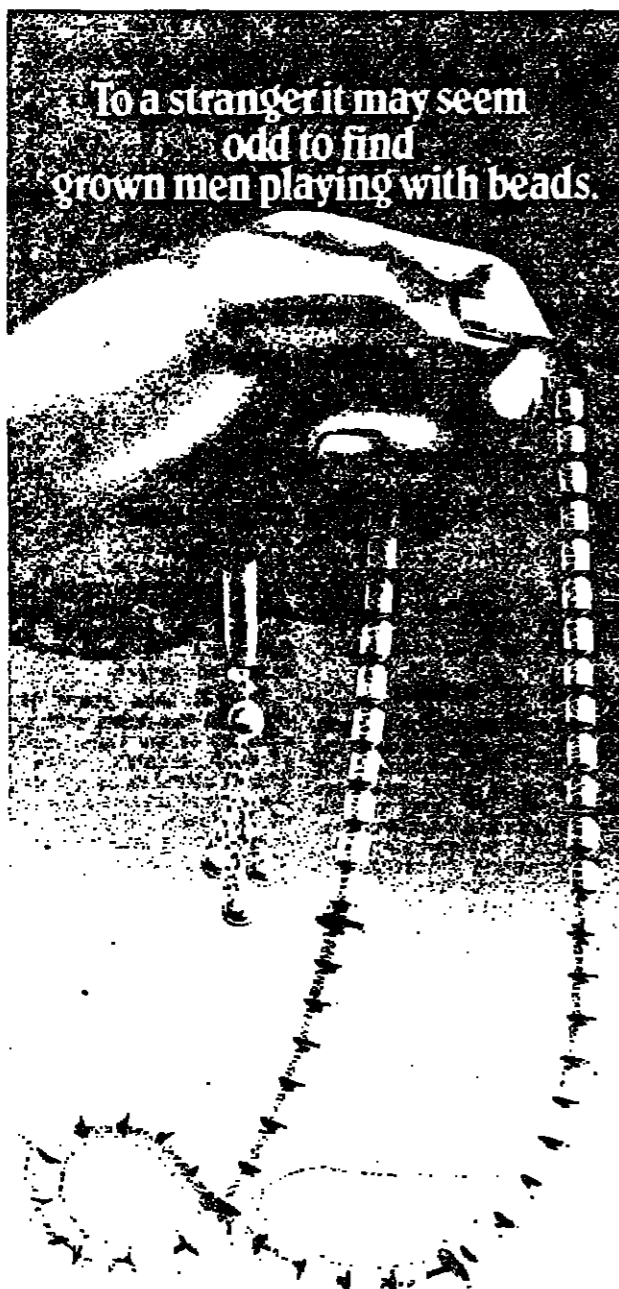
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Singapore Office: The National Bank of Kuwait SAK, 11-01 The Octagon, Cecil Street,
Singapore 0106. Telex: KUBANK RS 20538

To: The Public Relations and Marketing Department
Head Office: The National Bank of Kuwait S.A.K., P.O. Box 95, Safat, Kuwait.
Please send a copy of the 1982 Annual Report

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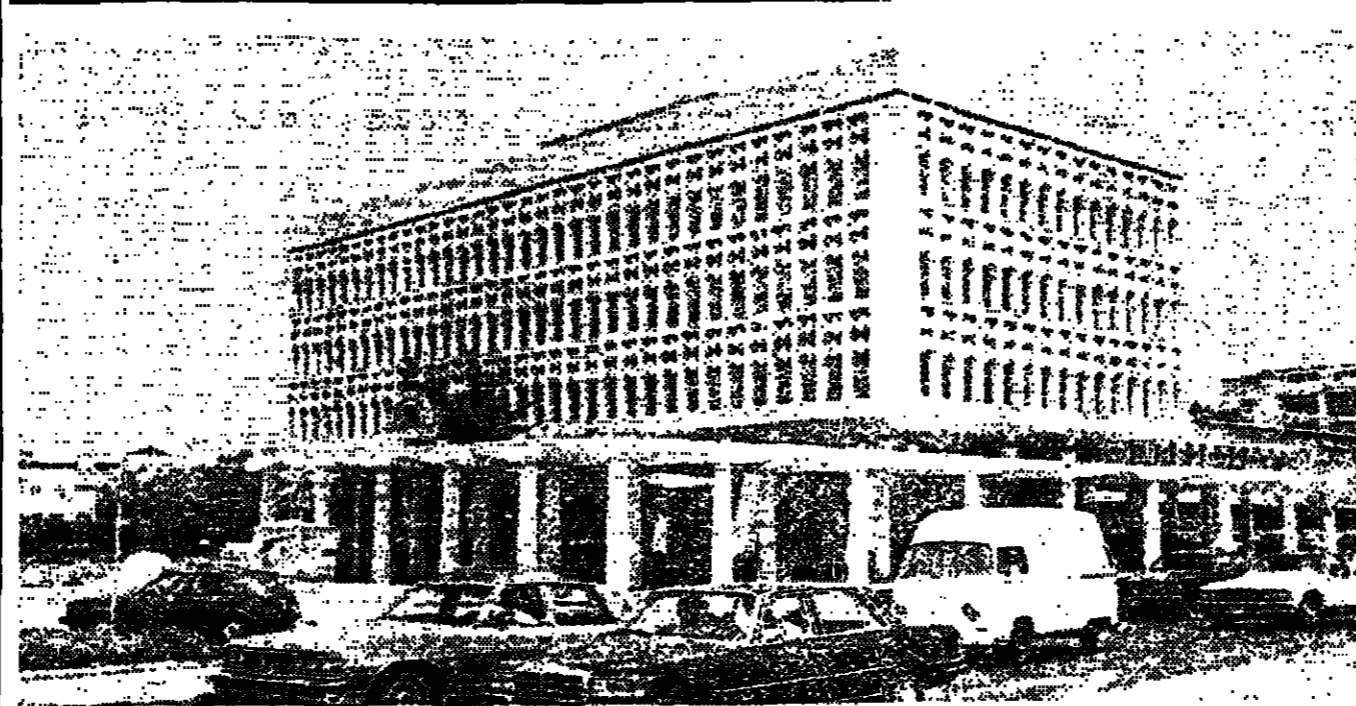
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KUWAIT II



Seats of oil power: the headquarters of the National Petroleum Company and the Ministry of Oil

Tough line in support of Opec quotas

IN TERMS of its crude exports, Kuwait's role as a major Middle East producer within the Organisation of Petroleum Exporting Countries (Opec) has dwindled considerably. With two-thirds of its oil production being sold in the form of refined products, Kuwait's crude oil sales are about the same as Opec's smallest members.

Yet, as Opec's troubles worsened in 1982, the country's traditional role as mediator was frequently called on. In recent months, Kuwait has acted as a bridge of communication between the new Gulf bloc producers and the other dissident members of Opec. This has not stopped Kuwait from being vociferous in its criticism of such members as Iran, Venezuela and Libya who have been discounting and over-producing in defiance of their Opec quotas.

Kuwait's anger at the errant members of Opec is understandable. Because of its adherence to its Opec quota, production is now hovering around 600,000-650,000 barrels a day, nearly half of its officially declared ceiling, and down from 940,782 b/d in 1981. Output from the neutral offshore zone held by the Arabian Oil Company is now down to 200,000 b/d, compared with a peak in 1979 of 400,000 b/d. (Kuwait's share from the field is presently running at 100,000 b/d.) In the onshore

area shared with Saudi Arabia, Kuwait is receiving only 75,000 b/d.

Kuwait is in a particularly difficult market situation, for its oil is relatively heavy with a 31.5 deg API quality, similar to Iran's heavy crude. However, in contrast to Iranian heavy which is currently selling on the spot market at \$28 or less, Kuwait's official price at the end of January was still pegged at \$32.50. Even when the expected \$4 cut in the benchmark is agreed, Kuwait's marketing officials still expect severe difficulties in marketing their oil in 1983.

Meanwhile, the Kuwait Petroleum Corporation, which is responsible for marketing the country's crude and product sales, has had to watch the gradual departure of its historic customers. Last summer, its last remaining Japanese customer, Daitoku, dropped out from its 30,000 b/d contract, and in September, Gulf Oil terminated its agreement for 35,000 b/d. Three months later, ENI of Italy let its contract expire. Today, Kuwait's major customers are Taiwan, Korea, the Philippines and Brazil.

Marketing officials hope that when, and if, the \$4 cut is implemented, the Japanese and others will return, preferring to deal with a more stable source of supply than Iran. That hope is dependent, however, on

the ability of Opec to stick to a price agreement and a production ceiling of 17m to 17.5m barrels a day, say Kuwait officials. They do not expect to see an upturn in demand for Opec oil above those levels until at least the fourth quarter of this year.

There are a number of factors which govern Kuwait's attitude on the pricing issue. Firstly, as a country with proven reserves of 70bn barrels or more, Kuwait's interests lie in long-term stability in the oil market and a competitive edge for oil over other alternative energy supplies.

The second important factor is the country's gas shortage. Although Kuwait is naturally concerned to see its oil revenues plunging year by year, it is to a certain extent immunised from major financial problems because of its investment income. However, the decline in oil production has been matched by the fall in output of associated gas.

Kuwait needs a certain level of oil production so that the country's power stations and downstream industries can run. This problem was identified way back in 1976 and, to a certain extent, the energy deficit has been taken care of. The new power stations coming on stream between now and the next seven years all have the capability of switching to fuel oil. The production of fuel oil will be increased with the expansion which is now under way at the Mina Ahmadi refinery.

Even so, with oil production at such record low levels, Kuwait will be walking a fine edge as regards gas supplies. Senior officials at KPC believe that this summer there will be a shortage of gas. Within the next three months, the first three units of the Doha West power station will be coming into operation and Ministry of Electricity officials have made it clear that while the units are being commissioned, rather than liquid fuels is preferable.

As demand for electricity increases during the summer months, because of air conditioning, KPC officials are already predicting that some shortages of LPG will have to be re-gasified for use in the local power stations. At that time, LPG exports will cease altogether, say officials, a prospect which does not appear to worry its oil minister.

Kuwait's LPG facility is already operating at one sixth of its capacity and if oil production slumps by another 50-100,000 b/d the plant will have to close. This, in turn, could affect petrochemical output which is already running at only half capacity.

The electricity ministry is doing all it can to cut down on gas usage and is currently using crude oil in some of its plants. Depending on the season, some 5-30,000 b/d is being used in local power stations, which naturally represents a loss in revenues for KPC.

The gas problem is being tackled in another way—exploration. The hunt for gas has been stepped up but, so far, unfortunately, as the country's oil minister Shaikh Ali Khalifa al Sabah, puts it, only more oil has been found. Since 1977, five new reservoirs have been identified, all of them commercial. The search for new unassociated gas fields is presently being concentrated in the Khuff zone, which has provided such a wealth of gas for Kuwait's neighbours. However, in Kuwait, the Khuff zone is located at 15-18,000 ft, making any test drilling an extremely difficult and expensive task, says Faisal Kazmawi, deputy chairman of KOC.

There has already been one blow-out and another well had to be abandoned because of mechanical problems. However, KOC now have four rigs working the Khuff structure, one of which reached 22,000 ft—a record for the Middle East.

Gas has been found in the structure but not in commercial quantities. However, at 11,000-14,000 ft, there were shows of oil, with a quality of between 35-36 API. Test drilling is also going on in the Gahra area where three wells are planned. In north Kuwait where heavy oil is indicated, in west Kuwait where two deep wells are proposed, and in the Sabriya and Burgan areas. Altogether, some

KD 40m is earmarked in capital investment for exploration this year.

KOC also expect to begin exploring and test drilling in the offshore area in Shell's old concession. However, when a seismic vessel was undertaking a survey of the area last year, it was seized by the Iranians, on the grounds that the ship had intruded into the officially declared war zone.

Never the less, the survey is now being evaluated and preliminary results are said to be encouraging. An offshore rig is under construction in Hong Kong which will be capable of drilling to 350 ft of water to depths of 30,000 ft. KOC ex-

Oil and gas

KATHLEEN EVANS

pect the rig to be completed in May, and in Kuwait, ready for work by August this year. At least two test wells are planned for the area.

Never the less, the location of the field in the war zones of both Iran and Iraq is bound to mean further difficulties for the offshore drilling programme.

Other industry men believe a more promising zone is in the south of the Shell area, near the border of the neutral zone. However, as the border has never been finally established between Saudi Arabia and Kuwait, this is likely to remain unexplored.

KOC is also planning three pilot schemes for water injection to enhance production at the Sabriya, Managash and parts of the Burgan fields. At both water and gas are in short supply, KOC are hoping to find good quality water below the fields for the injection schemes. If successful, another 15-20 water injection projects will be given the go-ahead.

The gas gathering scheme for the neutral zone fields offshore is due for completion this year, and this should provide a further 13m cubic feet of gas daily. The contract for the offshore gas gathering scheme is the Arabian Oil Company concession area is also to be awarded very shortly, most likely to Technip of France which came in with the lowest bid.

The gas shortage has provided the background for the massive expansion programmes under way for Kuwait's refineries this year, for in terms of capital investment costs, they represent some of the biggest schemes the country has ever embarked on.

The primary need was to provide more fuel oil for the country's power stations to cut back on their reliance on associated gas.

Mina Ahmadi, one of the state's oldest refineries which has already seen one major expansion in the early 80s, is now being upgraded to a total capacity of 275,000 b/d, an increase of 75,000 b/d over its present level.

The new expansion is being done in two phases, firstly to provide more fuel oil and secondly to add to the plant's flexibility on the range of products it can produce. It is being built by Japan Gasoline Corporation, which is due to finish work in 1986.

The increase in output from Mina Ahmadi will enable KNPC to meet the energy requirements of the electricity ministry until the early 1990s.

It is Min A Abdulla which is due for the major expansion, however. Under the major reworking scheme there, the refinery will increase from an 80,000 b/d capacity to 300,000 b/d, with most of the product going for export. Overall, with the Shuaiba refinery, Kuwait's refining capacity will be going up to 750,000 b/d from 450,000 b/d.

The new flexibility provided in the refinery expansion plans will make Kuwait more active in the naphtha and middle distillates markets. KPC officials say their growth in products will make the country less vulnerable to pressure by crude oil purchasers and the oil market. "It is better to have 30 products customers than a handful of crude oil buyers. It makes you less vulnerable," says Nader Sultan, chief of product sales. Around 80 per cent of KPC's product sales are going in term

contracts, to "Ivy League" customers, says Sultan.

Although KPC's customers may be the cream of the chemical giants, officials concede that some of them may shift to spot market purchases. "We don't want people to buy from us on the grounds of our prices. We want to do business with those companies who will be with us for a long time, and will not be killed off by current market conditions," Sultan explains.

Nevertheless, other industry sources say Kuwait is having to sell its products at an equivalent of a \$27 a barrel crude price. KPC says there have been three price adjustments in the last year, "in order to remain competitive in the market," but the crude price equivalent is no less than \$30 a barrel.

The weakness of the products markets will make 1983 a difficult year on the products side. Officials say they just about broke even on refined products last year. Prior to that profits stood at KD 287m in the 18 months prior to June 1981.

The entry by the Saudis into large-scale products export within the next three years has highlighted the need for overseas downstream assets for KPC. In January, the company finally nailed down a deal with Gulf Oil for 750 retail outlets in Belgium, Luxembourg and the Netherlands, and a small 75,000 b/d refinery in Rotterdam. In this connection, KPC must also be eyeing its recent equity purchase in the West German chemical giant, Hoechst.

Last year, Kuwait's overseas exploration affiliate, KUPPEC, scored its first success with the

discovery of oil in commercial quantities in a concession they hold with Gulf Oil offshore Indonesia. The oil is of high quality—47 deg API—and now a plan is being drawn up for further drilling in the area and financing of the field's development.

Since its formation only two years ago, KUPPEC has been active in areas stretching from the U.S. to Australia and North Africa. Some 70 per cent of its KD 400m capital is already committed in concessions.

The company is studying 105 applications from oil companies and governments, though says it is only interested in 14 at best. Kuwait now holds a 40 per cent shareholding in the operating company of the International Energy Development Corporation and 21 per cent in the holding company.

Through IEDC, Kuwait holds interests in Australia, Oman, Turkey, Sudan, the Congo, Tanzania and Egypt. Through the acquisition last year of Santa Fe, Kuwait also has interests in the U.S., the North Sea and China.

KUPPEC intends to use Santa Fe as their guide and mentor in the field of U.S. investments and appear more interested in trying out new areas than taking over existing production.

This year, KUPPEC senior officials say they are hoping to go into ventures as an operator and 100 per cent owners for the first time. The company is presently studying offers and proposals from Pakistan, Tunisia and Somalia. KPC and all its many affiliates seem well on the way to the title of "Eighth Sister" which they covet so much.

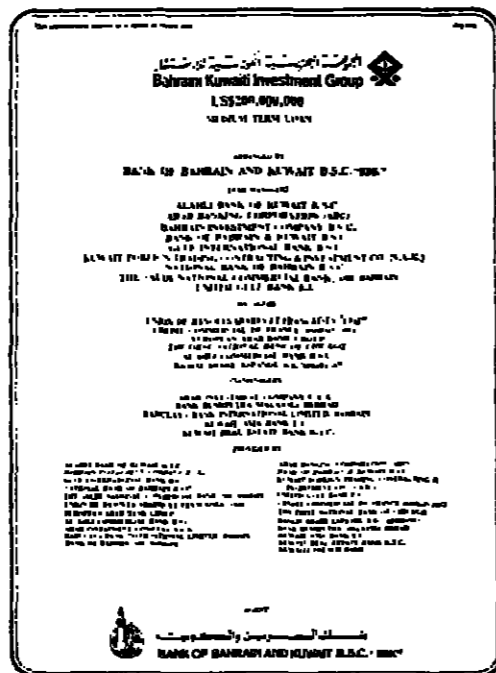
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FINANCE

KUWAIT III



Leyland buses are common in Kuwait city, helping to ensure that Britain maintains its position as the third biggest exporter to the country

Massive wealth limits effects of setbacks

FINANCIAL bubbles create their own psychological reactions. The initial hopes of vast wealth created out of the paper bubble in the Souq al-Manakh, the unofficial stock market have now disappeared. They are replaced by exaggerated fears of financial ruin and doleful analyses of the number of bank-rupcies to be expected.

The Souq al-Manakh, which crashed last autumn, dominates all talk in Kuwait. The decline in oil revenues is discussed less than in the other members of the Organisation of Petroleum Exporting Countries. The difficulty is in separating the real impact of the Souq crash on the Kuwait economy from the cries of anguish now heard on all sides.

The inevitable crash was long predicted. The Government itself issued warnings but its tones were always ambiguous. The Crown Prince himself visited the Souq. The truth was that for a long period in 1982 many Kuwaitis, including those in senior positions, could not resist the temptation to make a lot of money fast. "It was almost unpatriotic not to believe in the Souq al-Manakh," says one banker.

The atmosphere was not dissimilar from that surrounding the London property market in 1973-74. Everybody thought they could get out in time whatever the final outcome of the boom. Everybody thought they could get rich. The use of post-dated cheques purchasing Gulf company shares at a vast premium on the spot price appeared to create limitless credit.

In the months since the collapse the difficulty has been in preventing a complete collapse in confidence while not giving the impression that the Government intends to bail out all those involved in the market.

Economic trends

PATRICK COCKBURN

problem at a series of levels. The final cost of all this to the Government is difficult to assess. In order to prevent values collapsing in the official stockmarket and in real estate the Government has to be able to deploy its resources. This does not necessarily mean that it will be unable to realise at a profit the assets it is now acquiring to prop up the market.

There is no way that the Government can speedily re-

KUWAIT'S EXPORTS TO OECD MEMBERS

	1980	1981	1982 (third qtr.)
Japan	3,480	3,570	1,140
UK	1,520	970	140
Netherlands	1,410	1,000	300
France	830	420	100
Australia	290	490	n.a.
Italy	590	370	400
U.S.	470	90	40
West Germany	380	280	170
Spain	260	220	90
Canada	140	140	n.a.
OECD total	9,880	7,750	2,800
EEC total	5,090	3,140	1,140

Source: OECD.

solve the Souq problem. To attempt to do so would make matters worse. But this in turn leads to a number of economic dangers.

With so many companies unclear about their own assets and the assets of other companies in Kuwait it will be extremely difficult for commercial life to pursue its old course for many months. Business is not paralysed but its level has dropped. Most companies are loathe to give credit. They want cash. "The problem is that nobody has any idea what their real financial position is," says one financier.

As a result of the Souq crash there is a general depression in business in Kuwait. But there is also a danger that the unofficial stockmarket will be blamed for other ills of the economy. The Souq al-Manakh has become a useful catch phrase to explain more complex processes.

As elsewhere in the Gulf Kuwait is a very rich but also a constricted market. It is numerically limited. Traditionally it has also sold to Saudi Arabia, Iraq and Iran. The latter market is no longer significant since the start of the war. But Iraq suddenly increased in importance with the expansion of the Iraqi development programme and the closure of Basra in late 1980.

"The Iraqis wanted things yesterday. All Iraqi officials wanted to do was to get goods whatever the premium," says the head of one trading company. This in turn led to an immediate expansion in stocks held by Kuwaiti companies with the Iraqi market in mind. Many small new trading companies were formed.

But by the spring of last year, as Iraq found the war continuing and its funds reduced, this trade began to contract. Many trucks were left in showrooms. Merchants were left with overstocked inventories. Saudi ports offered cheaper facilities for transit trade. The Iraq trade produced few of the dividends originally expected.

These two concerns—the Souq collapse and the Iran-Iraq war—have reduced the attention given to the fall in Kuwait's oil revenues to a surprisingly low level. This is partly because Kuwait's reserves, put at \$75-80bn, are so high. Reduction in the country's annual oil revenue over the last few years is less serious than it is for all other members of Opec except Saudi Arabia.

Oil production is now down to under 650,000 barrels a day compared with 940,000 b/d in 1981 and 1.3m b/d the year before that. Almost all its traditional crude customers have now departed and most of its oil sales are in the form of refined product. With its downstream acquisitions in Europe presumably this will increase.

With over \$8bn a year in investment income, however, Kuwait can weather the fall in its oil revenues. There are some cutbacks in expenditure inside Kuwait but the country has never undertaken a vast range of industrial projects as have Saudi Arabia and Iraq. There will clearly be some rescheduling of some infrastructural schemes but this will not be too drastic.

All these financial problems facing Kuwait have to be seen in the context of the country's massive wealth. This is sufficient to limit the damage inflicted by the crises of the last year though for the losers in the Souq al-Manakh this is little comfort.

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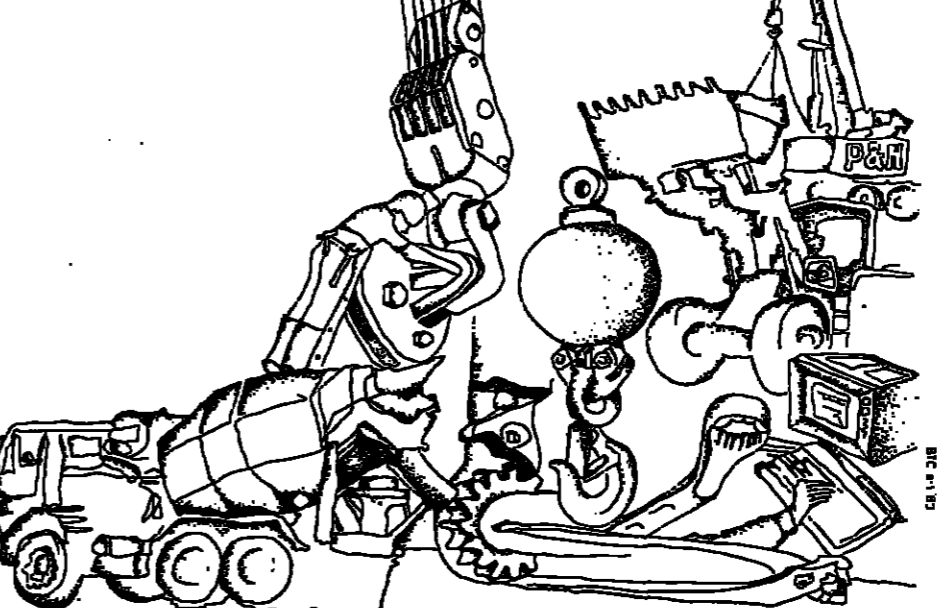
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Profits for the year were up by 32%, reaching KD 15.4 million compared with KD 11.7 million declared in 1981. Profit per share once again increased substantially despite a further increase in share capital.

Continued Growth

In 1982 the balance sheet total grew to KD 2,183.9 million, a 20% increase over the previous year. At the same time total assets increased by 22% to KD 1,769 million compared with KD 1,444 for 1981.

Increased Reserves

A major portion of our 1982 declared profits has been allocated to reserves; KD 10.1 million to the General Reserve and KD 1.5 million to the Statutory Reserve. We have declared a dividend of KD 3.7 million, equivalent to 12½% for each share issued of KD 1 nominal value.

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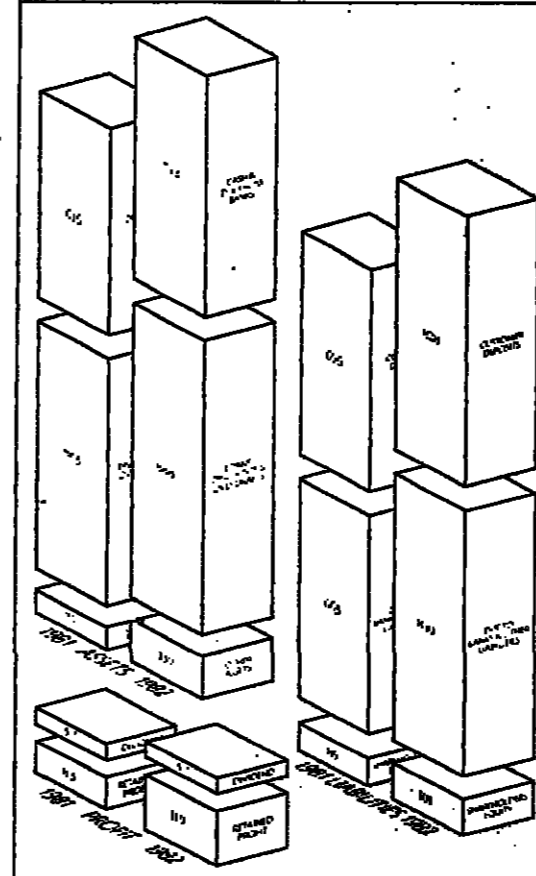
We have increased the share capital of the Commercial Bank by 25% by issuing bonus shares at the rate of one new share for every four shares owned and held at 31st December 1982.

A Year of Achievement

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Financial Results at a Glance
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Loan Portfolio

The Commercial Bank's total loan portfolio increased to KD 887.8 million at 31st December 1982. This reflects a steady growth from the KD 752.5 million reported at year end 1981.

The Outlook

We enter 1983 with cautious optimism based on an in-depth analysis of the environment. We are confident that the stability of the Kuwaiti Dinar, the maturity of the country's economy and our own developments in both human and technological resources put us in a strong position to expand our business both internationally and domestically. We look forward to working with you.

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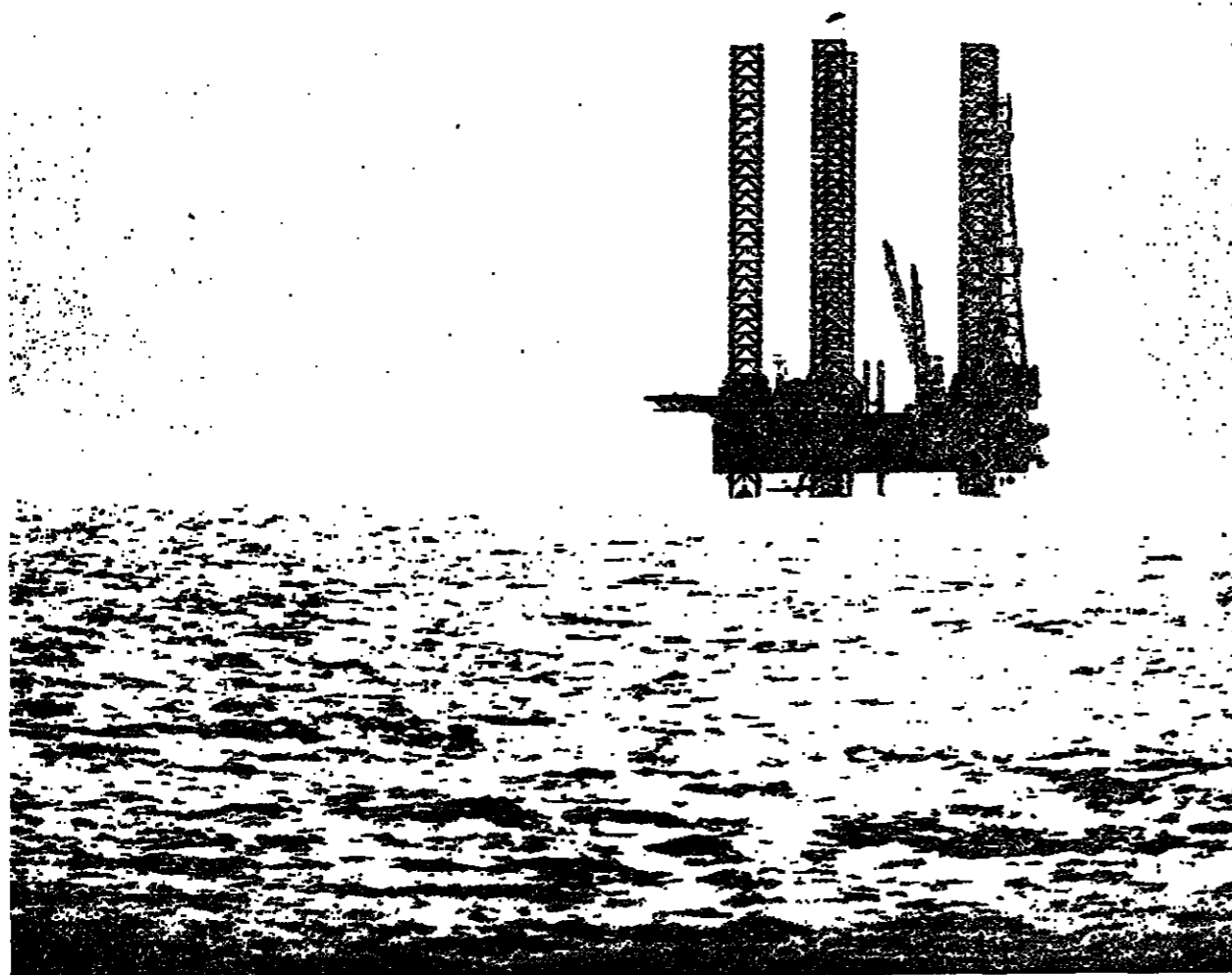


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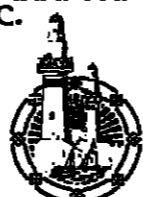
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KUWAIT IV



Kuwait city: its ability to absorb an ever growing population is limited

Plans for three new towns await final decision

CRUCIAL decisions on Kuwait's urban development to the end of the century and beyond will be made in the next few months. UK consultants Colin Buchanan and Partners have presented to the Government their draft of the second revision of Kuwait's masterplan. This will be considered by the authorities for some weeks, and if approved, will be published as the basis of planning probably to the year 2000.

Buchanan did the most recent masterplan study in 1977 by the Shaw'sland Cox Partnership, also of the UK. The new study, like its predecessors, has to take account of Kuwait's rapid population growth, which has outstripped all earlier predictions. The first plan drawn up in 1952 predicted that population would double to 250,000 by 2000—this figure was passed by 1961 and reached 1.4m by 1980. Planners now estimate a figure of 2.75m by 2000, with 1.75m of these concentrated in Kuwait city itself.

Kuwait city's ability to absorb an ever-growing population is limited. This has been exacerbated by the National Housing Authority's decision to concentrate on building villas—rather than unpopular flats—in its 1981-86 plan. This aims to provide 36,400 homes in the period, of which only about 4,000 will be in apartment buildings. The demand on precious urban land will be such that it makes the development of new towns inevitable. In preparation for the decisions that have to be taken, the Government is setting up a committee to co-ordinate the development of new towns. It will include a multi-disciplinary group of experts representing all the government departments involved. Kuwait municipality's chief architect, Hamid Abdul Salam Shuaib, recently visited the UK to study the development of new towns around London, hoping to apply this experience in plans for three new towns in Kuwait.

Preliminary studies for these are already under way, though final decisions will depend on the Buchanan recommendations. Further progress has been made with plans for Fintas, south of Kuwait city, which may be developed into the country's second administrative centre with a projected population of 500,000.

The UK's Rendel Palmer and Tritton won in January 1982 a design and supervision contract for infrastructure for the proposed new town. Working with the local Kuwait Engineering Bureau, it is preparing detailed designs for roads, bridges, street lighting, sanitary and storm sewerage, water supply, electricity and the distribution of treated sewage for irrigation. They will also prepare tender documents and help to evaluate tenders. The contract is worth about \$1.2m. Designs should be completed and tenders invited after April, for work then estimated to be worth KD 70m (\$240m). Actual construction would take about two years. The construction supervision contract, which may or may not be given to the designers, is worth some \$1.6m. Development at Fintas will depend, however, on decisions regarding the development of a new town at Subiya, north of Kuwait City. Unlike Fintas, this is a virgin site that will require a tremendous effort to bring to reality.

Subiya is important for political as well as purely planning reasons. The north of the country where many oil fields are concentrated is virtually unpopulated. Kuwait fears Iraqi ambitions in the area, especially since the border between the two countries has still not been formally delineated. Iraq periodically

requests a lease on Bubiyan island in an attempt to improve its strategic position at the head of the Gulf.

This makes development and population of the area an urgent political consideration, despite the doubts that have been expressed as to whether Kuwaitis would be willing to move away from the bright lights of the city to what will remain for the foreseeable future a raw desert site.

This concern was highlighted by the award in 1981 of a KD14m (\$48m) contract to France's Bouygues to build a bridge to Bubiyan island—a bridge that has been described as now leading from nowhere to nowhere.

Urban development

SHAKIB OTAQUI

The scale of the proposed development at Subiya is such that the preliminary feasibility study contract attracted bids from consultants from Lebanon, Sweden, Germany, Finland, Greece, Japan and Switzerland. The contract eventually went to Lebanon's Dar al-Hindassah Consultants.

The six-month contract covered studies for a masterplan for Subiya and for Bubiyan. These have just been completed, and the recommendations call for flexibility in planning the city and its development programme. A decision to go ahead with detailed designs should be made in March, if the town's existing development programme adhered to, the municipality says.

The timetable calls for a decision to start construction to be made by March 1984, with actual work on homes to begin in June 1986. The first residents would then move to the city in 1987.

An average 1,500 homes will need to be built each year if the target population of 100,000 by 2000 is to be met. This would rise to 250,000 by 2030. However, further studies of employment opportunities are needed. These are planned to include public service and higher education jobs for white-collar workers, and industrial jobs transferred from the Shuwaikh industrial area. The cabinet has already taken a decision to relocate Shuwaikh, which has now been absorbed by the growing Kuwait city and presents serious pollution and congestion problems. A consultancy contract to study the relocation was awarded earlier in February.

The Subiya study identifies three possible sites for the new town: in the coastal plain opposite Bubiyan, on the Zor ridge to the west or a combination of both. The advantages of the coastal site are seen as the ease of development on the flat lands of the area, as well as better communications. This is because the site will be near to the proposed alignment of the international road to the Iraqi border, which will be to the east of the existing road. The ridge site, on the other hand, would have the advantage of dominating the area, making the new town visible across the Gulf of Kuwait.

The consultants' study recommends a combination of the two sites, which would unite the advantages of both ridge and plain. It would also give planners maximum flexibility in planning its development while making best use of the land available.

The consultants say that the project has now reached the stage where there is an urgent

need for a serious decision as to whether it will go ahead. It also calls for further studies to gather the information necessary for detailed planning.

In particular, a decision is required on future employment policies for the town—including a timetable for transferring civil service and university jobs to Subiya. Also needed urgently are detailed site surveys, transport studies and other technical information.

These decisions await the evaluation of the Buchanan update of the masterplan. The same applies to decisions on a third new town, proposed for the Al-Khairan area in the extreme south of the country.

The first phase of the Al-Khairan development, for marine works, is already under way. The local International Contractors Group won a KD 14.8m (\$50m) contract in late 1980 to build a marina for 220 small boats, a sea club, chalets, a shopping centre and boat maintenance facilities. This essentially recreational scheme can serve as the nucleus for the new town if the decision to go ahead is taken.

In parallel with these plans for new towns, the development of Kuwait city itself goes on unabated. With major infrastructure now in place, the emphasis has switched to make the city a more efficient and pleasant place to live.

Plans already under way include the ambitious green belt scheme, which aims to form a barrier against the sandstorms which have afflicted residents throughout the city's history. Because Kuwait achieved oil

wealth before her Gulf neighbours, much of the development now taking place involves re-developing areas built up in the 1950s and 1960s. This has created serious problems with contractors regularly cutting through existing electricity cables and similar services.

To avoid this, the municipality is on the verge of awarding a contract for the Kuwait Utility and Data Management System (Kudams). This will build up a computerised database on all land use patterns and underground utilities.

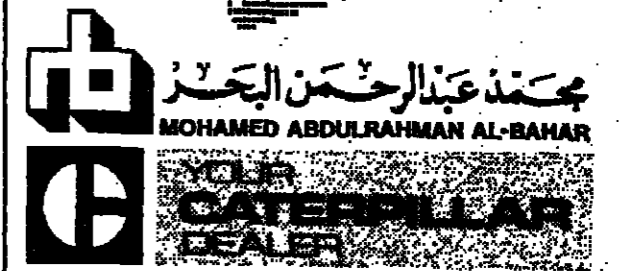
Work will involve first mapping all these services, then developing a computerised storage, retrieval and updating system. Many international firms were attracted by the scheme, of which 14 pre-qualified and seven actually bid for the contract. Competition has now narrowed to Japan's Asia Air Survey Company and Belgium's Electrol Engineering Company. The six-year contract should be worth in excess of KD 8m (\$27m).

A major problem that faces Kuwait in its development schemes is availability of manpower. Government planners say that the new towns can be built with locally available labour. But a crackdown on illegal residents in late-1982 has created a shortage of labour and raised wages rates. If a major influx is required for the new towns construction programme, the population projections on which it is based may become rapidly outdated.

Shakib Otaqui is deputy news editor of the Middle East Economic Digest



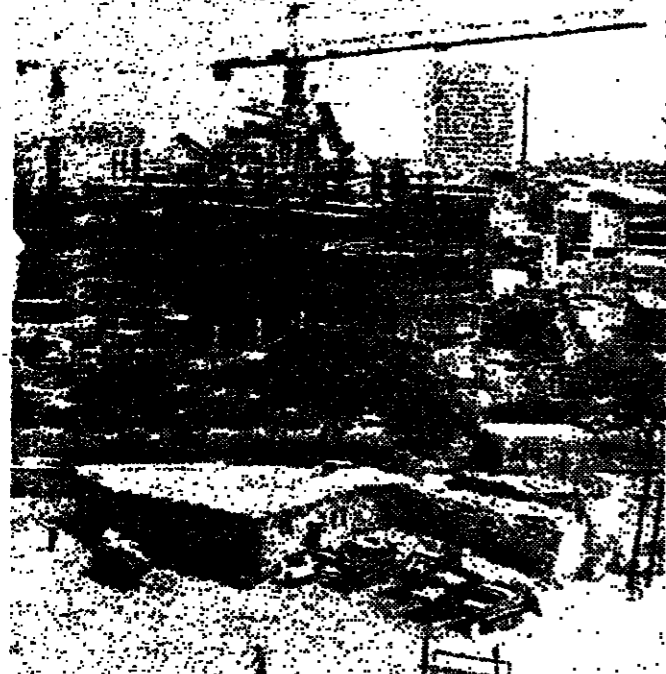
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Huge stake in British industry and commerce



Yet another building goes up in Kuwait City. The high rate of building and demolition helps to give the city a permanently unfinished appearance.

Living problems in the world's richest city

KUWAIT HAS the perpetual air of being unfinished. Roads are constantly diverted for the construction of flyovers or other highways. If they are not diverted, they are being torn apart for the laying of new cables or pipes for water, telephones, sewerage and other facilities that one would expect to have gone in long ago, before the buildings were erected.

When you ask officials at the municipality why Kuwait, the richest city in the world, is like this, they shrug their shoulders and say: "You should have seen it 10 years ago."

A major reason why Kuwait looks so dishevelled is, ironically, its age. It was the first Gulf city to boom almost overnight when the oil began to flow back in the mid-1930s. Some of the houses dating from the original influx of immigrants are still there, their tenants loathe to move to new homes where the rents are several times more. With rents controlled, most foreign residents hang on in dilapidated properties rather than pay the Manhattan-style rents which prevail in buildings just yards away.

The alternative—to move out to the new areas—means commuting an hour a day into the city among some of the most impatient, reckless drivers in the Arab world.

Inner city living has become a £1,200-a-month or more experience available only to the most senior foreign executives or rich Kuwaitis. Newcomers to the suburbs can easily find themselves paying £600 a month for a modest two-bedroom apartment, prefaced by key money for the privilege of a telephone in any home is a rare commodity.

The wealth of Kuwait city is rarely felt. There are none of the glamorous palm tree avenues which characterise the cities of the lower Gulf. Whatever palm trees manage to grow in this overcrowded city are stunted by car fumes and virtually invisible among the acres of parked cars. Even the beach is under construction.

The most pressing problem the city has to cope with is the growth in the population. By 1985, Kuwait's planners expect the state to have just under 2m people, almost double the 1975 figure. The electricity and water Ministry calculate that every five years they have to cater for a near doubling in their capacity.

Every year the city's streets have to cope with an extra 50,000-odd cars; the country's education system has to add another 30 to 35 new schools. In every sector, it is a race against time to keep up with the growth in demand.

At the electricity Ministry, the race is being finally won. For this summer will be the first time in many years that load capacity will have a comfortable 20 per cent margin over peak demand.

Kuwait residents are the most lavish users of electricity in the world. Per head, they use some 7,000 kilowatt hours and think nothing of going away on holiday leaving the air conditioners on. Demand has grown from 1,205 megawatts in 1976 during the peak periods to around 2,600 Mw last summer. However, capacity lagged behind at 2,520 Mw and load shedding occurred.

With the commissioning of the first three units of Doha West this April, capacity should stand at 3,500 Mw with demand comfortably behind at 2,900 Mw. Just how much is available of that capacity will depend on the gas supply situation.

Subsidies are by far the greatest burden on the electricity ministry. So far, the Government has been loathe to take the first steps in pricing the consumers' energy supplies

at more realistic levels. The price has remained unchanged since 1966 at 2 fils a unit, when costs exceed 15 times that.

The Ministry is, however, making headway in its campaign to make Kuwait more energy conscious, though most of the savings have come from compulsory measures such as the introduction of new building regulations to make buildings less wasteful as regards energy.

The National Housing Authority finds itself in a race against time, with a backlog of some 30,000 applications from

Infrastructure

KATHLEEN EVANS

Kuwaitis needing housing. The authority has a five-year plan to build some 36,000 houses by 1987 and so far some 13,000 units have been handed over. This is in addition to some 10,000 temporary houses which were built for those on the waiting list and for stateless Bedouins employed in the police and armed forces.

Until now, the authority's housing schemes have been divided into two categories—housing for average income families and those on limited incomes, usually lower grade government employees. However, following a debate in the national assembly, the two types of houses have been merged into a standard unit.

The standard unit is a luxurious large villa. It consists of five bedrooms, five bathrooms, a dining room, the men in the household can do their entertaining and separate accommodation for servants.

Kuwaitis pay a nominal rent to live in these government houses—less than KD 50 a month, or can buy them outright at cost. They are forbidden to rent them out for a period of ten years, though many have been found doing so. Other new tenants have complained about the style or materials used in the government houses and many spend nearly as much on the house as its total cost of construction to the Government.

Some tenants have been known to spend KD 20,000 in laying marble throughout the house, for example. They want to hand over something valuable to their children," explains NHA director, Ibrahim Shaheen.

The NHA director says "There is not really a shortage of housing in Kuwait. It is a problem of definition really. It is not a matter of shelter, merely a matter of ownership."

The waiting list of 30,000 applications may not truly reflect the people's need, says Shaheen. When 1,500 applicants were recently invited to take over a new batch of houses, only 900 turned up. What the authority is now trying to do is to computerise the applications so that a system of points will be established, with the most needy coming out with the most points.

With the new housing developments from the NHA and the general population growth, the Government has earmarked the area of Subiya to be the focus of development outside the metropolitan area. Subiya is 30 km from the city and today consists of a police post and a few shacks.

The major area of concern is the possible source of employment in the area and a study by Dar al Handash is due to be finished in April on the subject. The area is destined to have an eventual population of 500,000, say planners, and is vital if Kuwait city is not to be saturated by the 1990s.

AT SOME point in the very near future, the professional investors who place Kuwait's surplus oil revenues on the London stock market will be playing an influential, perhaps pivotal, role in the future of one of Scotland's largest employers in the engineering industry.

It is not necessarily a role which they will relish. The Kuwait Investment Office, a department of the Kuwait Finance Ministry and the leading vehicle for Kuwaiti investment, has a huge stake in British industry and commerce but masks a point of caution and discretion in its pursuit of safe, long term investments. For all its size, the KIO creates very few ripples in the City of London and the companies in which it has invested.

Despite this very low key approach, the sheer scale and diversity of its portfolio must occasionally bring the KIO into the limelight.

The unwelcome bid from Charter Consolidated which Anderson is now braced to receive once again, turns the footlights on to the KIO.

It has been a long term investor in the Scottish company and recently increased its stake to 10.3 per cent. Given that Charter already holds almost 30 per cent of Anderson,

the KIO's attitude may well decide the outcome, particularly if it responds favourably to Charter's bid terms.

Anderson's relationship with the KIO is somewhat exceptional. While many other directors of companies where the office is invested refer only to the KIO's downbeat approach to personal contacts, eschewing investment seminars, annual meetings and the inevitable round of company visits, Anderson sees the KIO managers as long-standing, loyal and interested members. The City will watch with interest which attitude prevails as the Anderson/Charter saga enters its closing chapters.

The KIO has traditionally favoured the financial sector of the stock market in its broad range of shareholdings, emphasising insurance companies, property companies, investment trusts and the like.

The investment trust sector is another area where the KIO has played an important part in recent changes. The number of trusts is being reduced in a series of unification moves designed to reduce the discount of trust share prices against underlying asset values. Thus, the KIO sold its holding in Dominion and General Trust to London and Manchester Assurance, a noted proponent of unification, and sold its stake

in Scottish Ontario Investment Trust to the Courtlands pension scheme which, in turn, has recently announced unification proposals for the trust on the back of its substantially enlarged shareholding.

In the swap arrangement, which categorises many of these preparatory unification manoeuvres, the KIO received in exchange a holding in Penland Investment Trust which it later sold on to Throgmorton Trust. Throgmorton, to complete the circle, is now preparing a bid for Penland.

Disposals in the investment trust sector and the pending Anderson decision evoke memories of the KIO's influence in earlier takeover tussles. It pitched its support behind Trust House Forte in its climactic, if eventually abortive, bid for the Savoy and placed its Decca stake in Racal's hands thereby helping in no small measure to sink the vigorous counter bid for Decca from GEC.

More recent memories of the KIO are dominated by the Halliday Simpson affair. The irregularities which the Stock Exchange turned up at the Manchester stockbroker firm last year are alleged to have concerned only an individual manager of the KIO and were never intended to reflect on the office itself.

The sums involved were

never said to have been very large but the affair caused much head scratching in the City when it became known that the ruling Council of the Stock Exchange had disclosed that certain clients of the firm were able to transact deals through the firm's "open account" then either to book them to the funds they managed or to their personal

transaction which had been allocated to any particular account.

The exact scale of the KIO's investment holdings will never be known. An investor is never required to disclose his stake in a company if it stands below 5 per cent of the equity and it is quite possible, indeed probable, that the KIO has unrevealed interests in major public companies worth many millions of pounds. The best guess and this is not much more than anecdotal, suggests that the value of its holdings has been comfortably in excess of £1bn for some time.

City sources also say that the KIO is one of the leading generators of commission income, secured by a fixed dealing charge on share purchases and sales, for stockbrokers in the City. It has been suggested that the KIO is second only to the Prudential Assurance on this score and those close to the office believe that the KIO itself calculates that the office is the single most important source of commissions. Certainly, the loss of such income would create a deep hole which the firms on the KIO's short list of brokers would find very difficult to fill.

One area where the KIO's commissions were concentrated last year was the property market when the office thinned down its previously heavy

weighting in the sector. From the summer onwards, big holdings in Capital and Counties, Town and City, Slough Estates, Allinatt, London Properties and Property Holding and Investment Trust were much reduced or sold altogether.

Whether or not this was merely an aggressive play in response to marked sectoral weakness last year remains to be seen, but the KIO remains a major investor in UK real estate with a high development profile. St Martin's Property Corporation, one of the very few instances where the KIO has taken over a quoted British company outright, has provided a platform for the acquisition three years ago of the Proprietors of Hay's Wharf and consequently taken the KIO into one of the biggest schemes for the capital's South Bank. The KIO and its partners in this project expect to develop over 2m sq ft between London and Tower Bridges.

Whatever the timing and direction of the KIO's next equity portfolio shift, it is becoming clear that the provision of external investment income has an increasingly central role in Kuwait's revenue expectations. The price of crude and perhaps the recent revelations on the state's domestic bourse can only emphasise the KIO's importance.

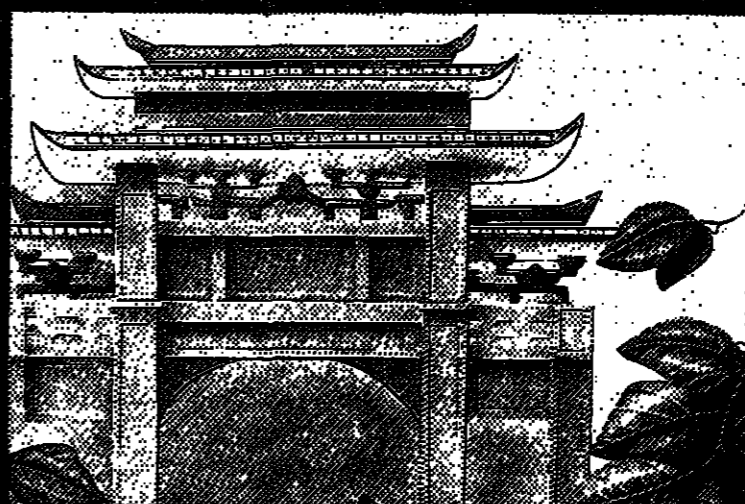
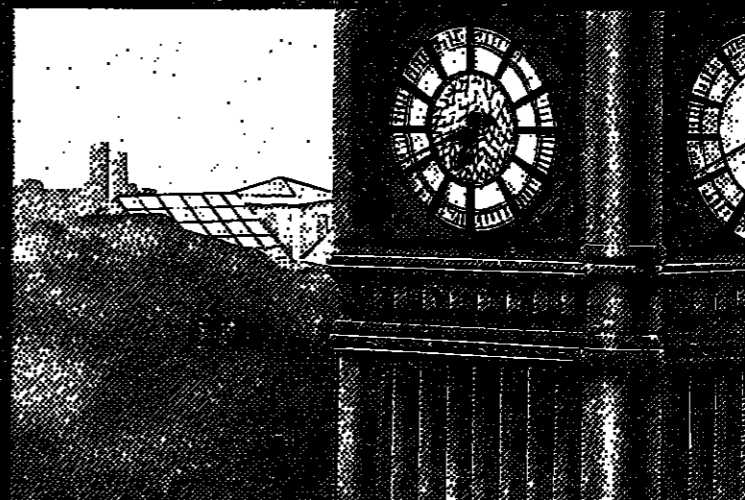
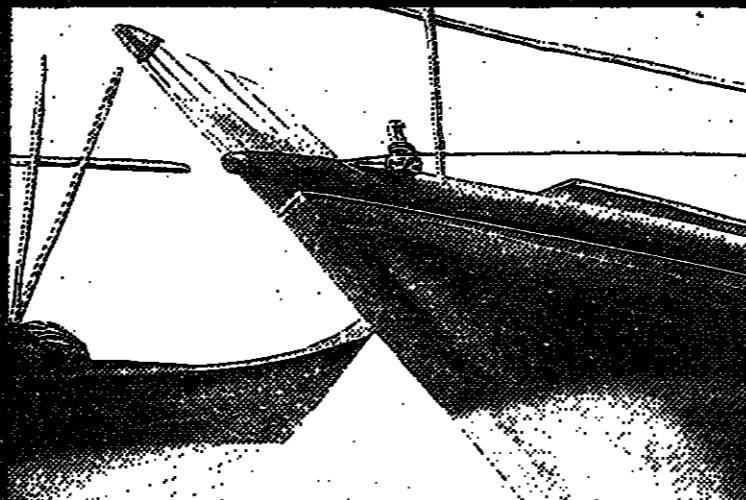
Kuwait Investment Office

RAY MAUGHAN

accounts, depending on the profitability of the dealings.

The KIO, in a rare public statement, was quick to put these findings into their context when it announced that "the failures to give precise booking instructions at the time of the dealings could have opened the way to improper conduct. The office has already taken steps to ensure that this practice is not repeated." There was no question, it added, that the office had been deprived of any profit accruing from any

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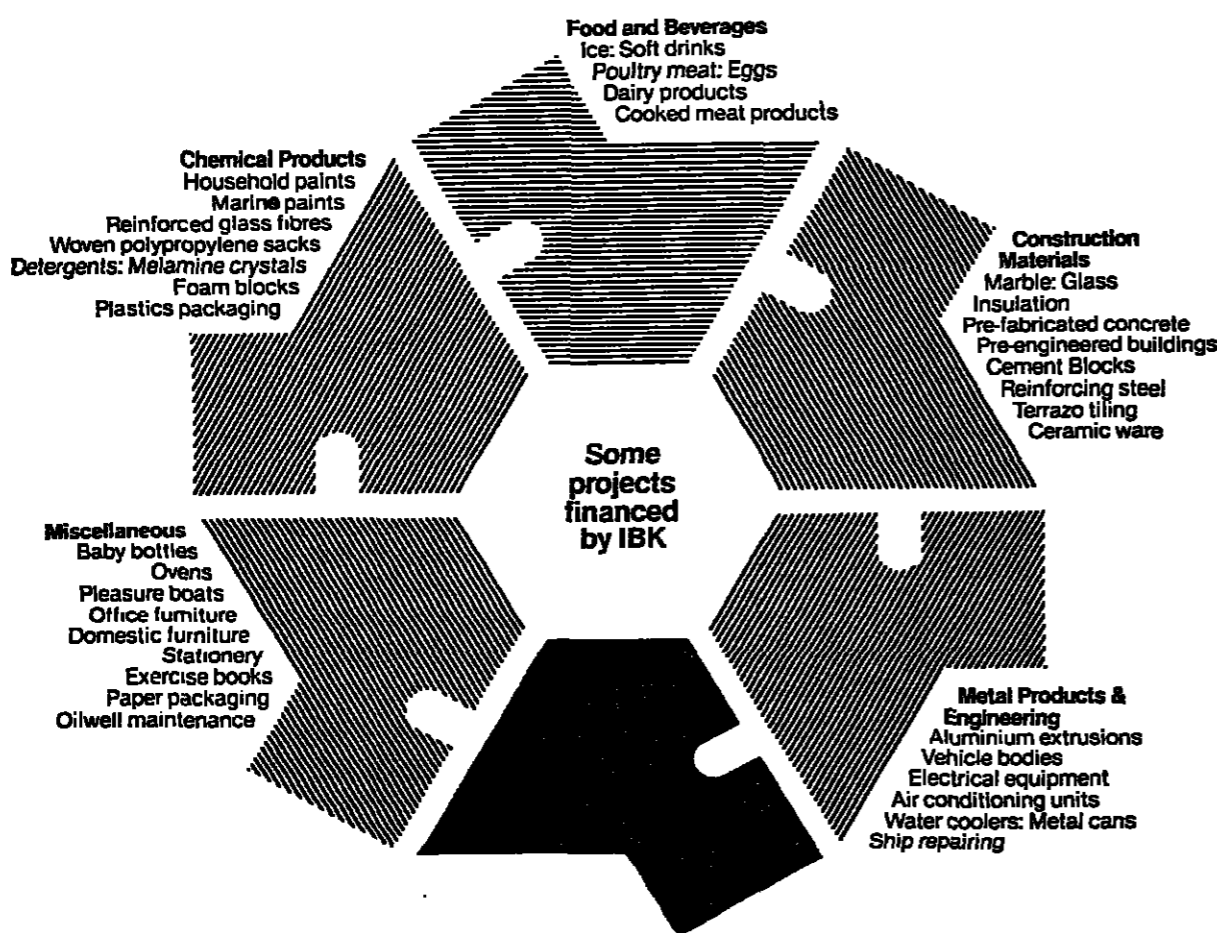
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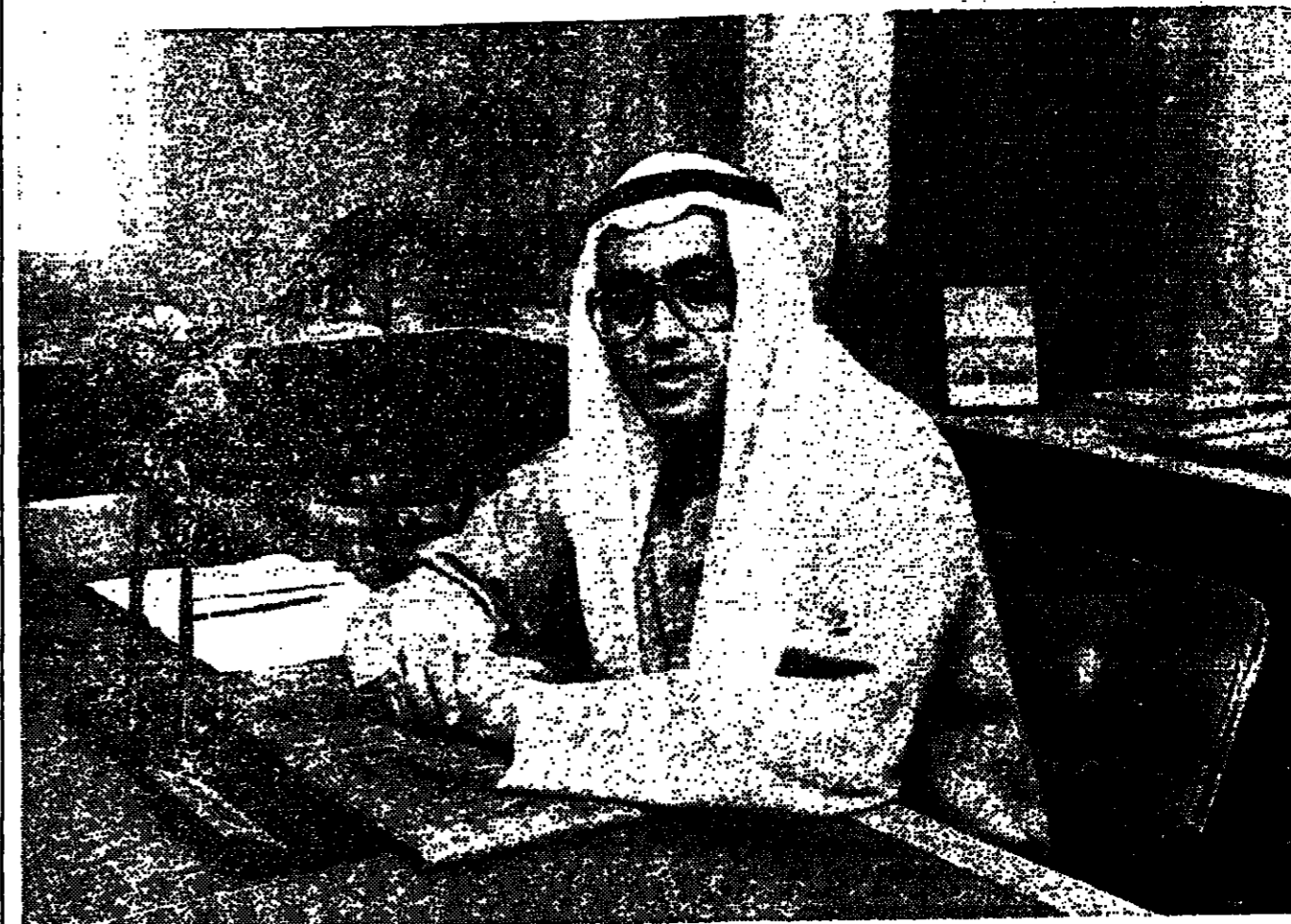
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KUWAIT VI



Abdul Latif al-Hamad, Kuwait's Finance Minister: people should accept that if they want to go into business there is a possibility that you gain and a possibility that you lose

Kuwait's Finance Minister explains the Government's attitude to tackling the effects of the collapse of the Souq

Do you not think the bankruptcy laws should be changed? It would be a big mistake to change the laws of the country for some people who gambled. European papers said it was like an official casino for those who gambled. The Government can't change the laws for them. I think that would be a terrible thing to do.

Is it possible to isolate, as it were, the big gamblers, without having too big a knock-on effect on the rest of society? This seems to be one of the crucial questions. Can the biggest gamblers be isolated, not only from the financial community, but from the rest of Kuwaiti society?

Well, a lot of people will be affected, but the main point is that there are so many people who did not gamble there are so many people that bought shares and kept them. That's one point; the other is that it would be a really terrible example because people will not learn a lesson.

In 1977 we also had a crisis in the Kuwait stock exchange. If the Government had applied the law at that time, let several bankruptcies occur and sent some people to prison, I am sure we would not have had the crisis of 1982.

But what happened? The Government in 1977 started buying all the shares that people were willing to sell. So people got the idea that nothing could go wrong, that the Government will always intervene to rescue us.

So if you let them learn a lesson, well, it was five years from '77 to '82 and you wait five years and it will happen again.

This is the point: people should accept that if they want to go into business, there is a possibility that you gain and a possibility that you lose. But people here think that you always gain.

What is this whole affair going to cost the Government?

We've done five things. We've protected our legally constituted stock market, preventing another crisis from developing. If the Kuwait stock market had collapsed we would have had a very serious problem, because that would have directly affected our institutions. Secondly we have protected values, and by protecting values, we are doing two things at the same time.

We are making it possible for people to realise enough assets to disentangle themselves, which would not have been possible if we had let the whole thing slip down, because of the atmosphere. Now you are in February, just think of it in August or September, the psychology of the market was such that you had to work looking way ahead, further than today, and the psychology then indicated that the situation was going to be catastrophic if we didn't do something about the stock market.

Thirdly, we have invested part of our assets, very solid assets, we translated financial assets into solid assets within our own community, within our own economy. Moreover, we have gained a rate of return which we would not have realised anywhere else in the world over the last three months. All you have to do is look at the published results of the companies here and the dividends.

Finally, I was given KD 500m by the Government and the Parliament to invest in order to help as a backing for the fund. I've used it to support the market and, at the same time, to generate income. So having made about 25 per cent return on my money, annualised, that's not a bad return.

As I said it to the Government—"We are entering war and when you are in a battle

you just can't say that you will send in the infantry and wait to see what happens, and then that you will send in the tanks followed by the airforce. You have to approach it from all fronts with all weapons possible, simultaneously."

Are you going to accept Gulf shares as collateral? I have no intention of doing it now but when you're tackling a problem like this you can't be dogmatic, and I think that's basically the difference between my attitude and that of the market.

They've locked themselves into such a dogmatic position they cannot see beyond it. I have left all my options open because as I said, what is at stake is far too much. I think we should look at it as a surgeon would look at a cancer patient. We say: "Yes, I suspect it has reached the liver, but when I open him up and find it has reached this, and this, and that, I'm going to take them out." You know what I mean. I can't sew him up and then revive him and say I have to open him up again.

What you intend to do has to be open-ended to a degree, because of the complexity of the problem itself?

Absolutely; if I said otherwise, I would either sound too presumptuous, or ignorant.

Isn't there a psychological difficulty there, in dealing with the market? After you've had a crisis anywhere, people want to discover that there is a simple solution. That's a natural psychological human need, and clearly that's what people want to hear in Kuwait?

Yes but I know the psychology of the market in Kuwait. Each one wants to hear a solution that pleases him. Well, I'm looking for a solution that will solve the problem as best as I can. It's not going to be a perfect solution, and, besides, I've never conducted dialogues as we're having here with anyone who has an interest in the market.

If I knew you owned one single share I would not have even opened my mouth.

'When tackling a problem like this you can't be dogmatic'

Because people are looking for a simple solution which doesn't exist, won't the psychological uncertainty remain for a long time in the future?

Yes, I agree with you completely, and that's why I'm taking it page by page. We didn't know the dimensions of the problems, the inter-relationships, the impact on the economy.

It was chaos, and we had to do two things—either use a knife and become butchers or use the most sophisticated surgical techniques.

And, therefore, you see, we had to be very careful. We had enough professional pride to want that operation to suc-

ceed, and we discovered two things immediately. First there was no solution that would solve the problem in totality. No universal solution for the problem as a whole.

Secondly, we had to compartmentalise it. First, the tip of the pyramid, and those were the people who obviously, clearly accepted deficit, short of paying that deficit there was no way of salvaging it.

The name of the game when I got involved was to salvage those categories. I resisted that and I'm very glad I resisted it.

Secondly, the small investors where the objective was to keep them from maximum harm. Not total harm, maximum harm. Because there is no way of keeping them from total harm, and therefore we devised the small investors fund. The priorities were absolutely clear; you deal with the small ones, you tackle the clear problem and then you come to the core.

Do you agree that the Government gave an official seal of approval to the Souq?

No, I would not agree with that. Very, very simply, we did not give a seal of approval because we told them go to the contrary. We said we had to be very careful, you have to do your clearing, you have to do this, you have to do that, we had many meetings which are documented and minuted to the contrary.

I said, in no uncertain terms, if there were to be a collapse we were in no position to assist by buying Gulf shares as we did before Kuwaiti shares were issued in 1976, because we did not recognise them.

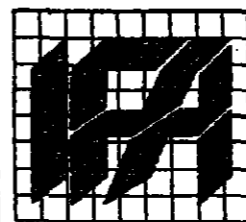
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Alan Friedman traces the rise and fall of the Souq al-Manakh and discusses the Government's reaction

The car park experiment which caused a national crisis

ALTHOUGH Western central bankers and others may differ on the extent (or even the existence) of an international debt crisis, there are few in Kuwait who would deny that the collapse last summer of the Souq al-Manakh, the country's unofficial stock exchange, has resulted in a bona fide crisis.

The crisis relates to a Kuwaiti Dinar 27bn (\$94bn) mountain of post-dated cheques which were used to buy and sell Souq shares, official Kuwaiti stock market shares and real estate. Some 6,000 investors are involved in the cheque mountain and they range from the lowest level of Kuwait's stratified society right up to the top.

How did the collapse of the Souq al-Manakh develop into this full-fledged crisis? The answers lie partly in the empirical facts themselves and partly in the curious (by Western standards) approach to business in Kuwait, a closely-knit community with a long tradition as one of the Gulf's most active centres of commerce.

Kuwait's official stock market was established as recently as 1976, a symbol of the country's financial wealth (from oil revenues) and a step toward development as a major international capital market. In 1976 there was an enormous stock market boom followed by a crash in 1977. The Kuwaiti answer to the crash was a government bail-out to the tune of some KD 150m (around \$500m).

So far so good. The years 1977 to 1980 saw no major stock market movement, but meanwhile wealth was accumulating dramatically, not least because of the 1979 rise in world oil prices.

The emphasis instead in these years was on real estate speculation, and this was a major channel for the distribution of wealth among the merchants and financiers of the private sector.

The Souq al-Manakh developed in an inauspicious building (the word "souq" means market) which doubled as a five-story car-park. Because of a government ban on the establishment of new public companies (designed ironically enough in order to avoid a repetition of the 1976-1977 stock market surge) the

speculators of Kuwait began setting up offshore Gulf companies in places like Bahrain and the United Arab Emirates. These companies, many without any real business, could be traded, however, in Kuwait. As a result a totally unregulated stock market sprang up and much of the trading was done by Kuwaitis lounging about Souq al-Manakh buildings during the hours of the early evening, over a glass of tea or Turkish coffee.

Many Kuwaitis had a great deal of money in their pockets and very little to spend it on. The need for an investment outlet was satisfied to a large extent by the Souq al-Manakh market.

Brokers in the Souq, just over the road from the official stock exchange, opened up little shops and described themselves as real estate agents. They traded in some 40-odd companies, many of which had never published a balance sheet. When these Gulf companies were not enough for the traders, dealing commenced in Kuwait private (closed) companies such as the Nascent Securities Group, established in November 1981 with a capital of KD 50m.

Under Kuwaiti law, transactions in closed companies are not allowed, but as the largest of the Souq traders—Mr Jassim al-Mutawa—remarked recently: "Yes it was illegal, but everybody did it, and the Government allowed these closed companies to develop."

Some 6,000 investors are involved in the cheque mountain. They range from the lowest of Kuwait's stratified society right to the top

The case of the Securities Group is a good example of how the market worked. With no accounts published and 50m shares subscribed privately at KD 1 each, the Securities Group became—even before it was formally incorporated—one of the hottest shares traded (illegally under Kuwaiti law).

Although Kuwait's six leading banks each took 500,000 shares and insurance companies bought

other shareholdings, the company's paper was all over Kuwait only 24 hours after it was formed.

Shares started changing hands at KD 4 each. They reached a peak of KD 12 during February 1982. These prices, however, were merely what became known as the "spot" prices. For the technique which really fuelled the Souq al-Manakh, and brought about its crash, was the post-dated cheque.

The post-dated cheque was, as it sounds, a cheque written for future payment as a means of settlement for share transactions. It quickly led to the establishment of an enormous and illicit credit market—a loan market, not a share market.

It worked like this: A purchaser of shares agreed to settle a deal by writing a post-dated cheque (perhaps a year ahead). This purchaser was gambling that by the time the cheque became due he would be able to sell the shares at a price well above his purchase price. So the cheque might have been written for a share price carrying a sizeable premium over its "spot" value—at times well over 100 per cent.

The purchaser of the shares would take immediate delivery of them and sell for cash, re-investing the proceeds into the market. All of this worked so long as share prices continued to rise, which they did by very large amounts during 1981-82.

The Souq's post-dated cheque system spread so quickly, however, that it became an unregulated credit market and interlocked with other post-dated cheques, written on the official stock market and in the property market. The main support for this increasingly fragile structure was the upward price spiral of share prices.

Thus, the shares of the Securities Group, issued privately at a value of KD 1 each, not only reached KD 12 on the spot market, but reached a peak of KD 50 on the one-year forward market. One of the biggest Souq dealers is reliably understood to have made a purchase of 24m shares in the Securities Group, nearly half of the company, at prices ranging from KD 25 to KD 50.

It requires a leap of the imagination to consider what this means: if the first 2m of

these shares were bought at KD 25, then the investor paid KD 50m—equivalent to the entire capital of the company—for 4 per cent of the company.

It is hardly surprising therefore that this same Souq dealer is believed to have used post-dated cheques to buy and sell parts of Kuwait's Holiday Inn. As one senior Western diplomat put it: "That Holiday Inn has been bought and sold so many times it is like the Brooklyn Bridge."

If all of this seems extraordinary, that is because it is. It is however far from frivolous. The story of the Souq al-Manakh has been portrayed in recent months as a great caper, a larger-than-life paper-chase in the Gulf of Arabia. The truth is that its repercussions are grave.

The Souq crashed last August when post-dated cheques were presented for payment prematurely. Many in Kuwait expected the unofficial market

Many Kuwaitis had a great deal of money and little to spend it on. The need for an investment outlet was satisfied by the Souq

to collapse eventually, but two major miscalculations were made. First, both government officials and Souq traders thought the market could hold out until December 1982, when a heavy volume of cheques was expected to mature; instead the crash came four months ahead of schedule. Second, nearly all of Kuwait expected that, as in 1977, the Government would provide a safety net and rescue the market from its folly.

The Kuwait Government took action on September 20, 1982, with the publication of a decree. The decree set up a clearing system for post-dated cheques, required all long-term deals to be registered with the Ministry of Commerce within 30 days and also established boards of arbitration to be chaired by judges and empowered to stop funds and individuals from leaving the country.

Mr Abdul Latif al-Hamad, Kuwait's highly respected finance minister, took a tough line early on. He said there would be no rescue. Instead the work of the arbitration panels would move through several stages: outstanding claims and net exposures would be determined and could be expected to result in a net deficit of KD 7bn (around \$25bn), down from the nominal figure of KD 27bn (\$94bn) but nonetheless a significant amount in itself.

Then the authorities would arrive at a formula for "discounting" the cheques, effectively stripping out a large part of the share price premiums on a percentage basis. Efforts would then be made to settle the residue of cheque debts, perhaps around KD 2bn (\$7bn).

Finally, Mr al-Hamad declared that certain debtors would be punished and would go to jail. In a recent interview the finance minister continued to adhere to his tough line, saying there would be "no blanket solution" and explaining there would be people "who will have to be hurt."

Unfortunately this seemingly logical approach to the post-dated cheque crisis has not worked in practice. The clearing house has been established and some KD 27bn of cheques have been registered, but the tangled web of interlocking cheques has proved a challenge even for the most complex econometric models devised by the finance ministry's computers. The question of punishment of debtors has also opened a can of worms in social and political terms—who should be punished and how can the Government avoid seeing the biggest debtors drag middle-level debtors down with them?

This last problem is the most serious and results from the possible strict enforcement of Kuwait's commercial code and bankruptcy laws. Up-jar the bankruptcy law if individual A is declared bankrupt he must immediately call in all of his debtors. If individual B, one of individual A's debtors, cannot pay then he in turn is declared bankrupt. And so on.

If enforced, Kuwait's bankruptcy law could result in a chain-reaction of bankruptcies and this prospect is already paralysing much of the country's economic life. No one can be quite certain of how much they are worth (defining assets

is a problem when their value will be determined by the discounting formula). Neither can people be certain of how much their debtors and creditors are worth. Companies and banks are having difficulty in finding auditors to sign their balance sheets, thus delaying the publication of accounts and causing greater confusion.

Worst of all, the Government's stated intention of punishing several of the biggest Souq traders (nine of the 6,000 investors account for some two-thirds of the \$94bn, cheque mountain) is viewed by many as a social injustice.

The 6,000 investors caught by the crisis can be divided into three major sections of a pyramid. At the top are the "Magnificent Nine" who account for two-thirds of the cheques and face criminal prosecutions. Closely linked to these nine are a further 50 investors also facing prosecution.

The bottom of the pyramid is composed of the several thousand "small" investors with liabilities of up to KD 2m (\$7m). This may not seem small, but includes syndicates of investors where tax drivers and hotel clerks would have banded together to play the Souq. The Government is providing these investors with a KD 500m small fund—they will receive a bail-out.

The bail-out will work through the issue of government bonds to these investors (up to KD 2m), which will then be discounted at banks for cash. The banks are therefore being used as government bond brokers and can be expected to earn a small margin on these transactions.

The truly difficult part of the pyramid is the middle—these 300 to 400 people who are neither certain to be bailed nor certain to be saved. If these several hundred Kuwaitis are bankrupted by the affair this could do lasting damage to Kuwait's economy.

Mr al-Hamad agrees that the middle of the pyramid is the most difficult to resolve. But he insists that the bankruptcy law must be enforced: "I'm not happy to see one single person bankrupt. But bankruptcies are going to be inevitable as long as you have this large deficit: You can't have a free, dynamic economy without bankruptcies taking place."

The finance minister also says that the search for an appropriate discounting formula, is proving a daunting one: "A simplistic approach does not work. It is a very complex problem. I've never seen as many figures in my life as I have over the last six months. Without exaggeration I have been snowed under by a metre-high of computer runs of the various complications. Every possible assumption has been put into the computer."

Mr al-Hamad says he recognises that there is more at stake than simply the Souq al-Manakh. Under threat is "the reputation of Kuwait, our methods of doing business, our attitudes toward contractual relations and the honour system."

Meanwhile, however, he concedes that "the figures keep on changing." Mr al-Hamad reckons the ultimate cost to the government of the Souq crisis will be "in total, a few hundred million" dinars, but this is only in the very long run. Steps have been taken already and they appear to suggest the cost of the crisis to the government will be billions rather than millions. There is the KD 500m small investor fund, which Mr Jassem Khalid al-Marzouk, the commerce and industry minister,

If enforced, Kuwait's bankruptcy law could result in a chain reaction of ... bankruptcies. This prospect is already paralysing much of the country's economic life

said would be doubled to KD 1bn over the next six years.

There is also around KD 500m which the Government has spent on purchases of shares in the official Kuwait stock market in order to support values and restore confidence. Mr al-Hamad points out that there is nothing to prevent the Government from selling these shares eventually. He does not say when.

In addition to the share purchases and small investor fund,

the Government has also pumped KD 300-400m of liquidity into the banking system. Again, it would be unfair to calculate this rise in the money supply (from around KD 4bn in total) as a "cost" per se—the Government can always drain reserves as well. But this has been an important measure, bringing interest rates down by 5 per cent in the past four months, to around 11 per cent (for the six-month rate).

Then there is a Government-funded loan programme, designed to help investors to mortgage property and official market shares in order to settle debts resulting from post-dated cheques. The Kuwait Foreign Trading Contracting and Investment Company (KFTCIC), which is more than 90 per cent Government-owned, is administering this programme. Mr al-Marzouk of the commerce ministry says around KD 500m will be made available for this loan programme.

Although Mr al-Hamad claims that all of this loan money will be repaid, another senior Government official (not a Cabinet Minister) says: "These are doubtful loans. They will never be paid back. We have to bear the cost."

Mr al-Hamad has not quantified the amount of loan money to be made available through KFTCIC. He says only: "I am open to any amount."

"Open" is the operative word here. For when all the dust finally settles on this embarrassing crisis, most seasoned Kuwaiti financiers reckon the resolution will lie in a certain amount of Government money being thrown at the problem, a certain number of Kuwaitis being bailed and a certain number of residual financial and social problems remaining unresolved for several years.

There is no clear answer to the crisis. There is some consolation in the fact that Kuwait's financial reserves are said to be well over \$50bn, so that if the actual cost were on the order of \$7bn, it would be damaging but sustainable. At the end of the day, according to one Western diplomat with long experience in the Middle East, the crisis will result in "a dent to the body-work of Kuwait. The RollsRoyce of Kuwait has been dented. But it can and will be repaired."

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KUWAIT VIII

FINANCE

Confusion which will take years to untangle

THE SOUQ AL-MANAKH stock exchange crash of last September has touched almost every facet of life in Kuwait. Like some over-fed giant octopus, its tentacles have grasped even the delicate mechanisms of society—honour, trust and the family loyalty which is the very structure of Kuwait. This is perhaps the greatest cost the country is paying.

On another level, every aspect of commercial life has been affected. The banks face huge loan losses, as yet uncalculated. The legal system is a logjam which could take years to untangle. Trading has slowed because no one knows what anyone is worth any more. Even the Government itself is in disrepute, and faces mass resignations when—and if—the crisis is solved.

Internationally too, the Kuwaitis have lost a lot of face. Gone is their reputation as the region's smart investors, the whiz kids of finance. From Abu Dhabi to Bahrain there is a smug feeling of satisfaction that this time the Kuwaitis have overstretched themselves. Outside the region, foreign companies must be wondering if their local agent is one of those referred to for bankruptcy proceedings.

Part of the tragic lure of the Souq al-Manakh exchange was the cheapness of its shares. For the cost of a newspaper, everyone could join in, and everybody did. And even if you did not have funds for your first stake, there was always the mechanism of the post-dated cheque. Many young Kuwaitis saw the Manakh as a way of acquiring the instant riches that their country is so famous for, which seemed so unattainable before.

It was a way of catching up with the fabulously rich traditional families of Kuwait which carry so much status and clout in the city. Now that whole generation is tainted as idiots, the babes of finance who dabbled in a world they did not understand.

Blame

Today, those minor family members, the third cousins, the young sons and brothers, are being blamed for the smears on the family name. The grand old men of the Kuwaiti trading houses are being obliged to cough up fortunes to remove the new element of doubt on the family escutcheon. As yet no one knows how this will affect the long-term futures of such companies, for such arrangements are, by their very nature, shrouded in secrecy.

Some families, however, are refusing to bail out their errant sons and cousins—for the simple reason that it would cost too much. "It depends on the magnitude of the debt," commented one local management consultant. "If for example, it is going to damage or destroy most of the family fortune, then some families are deciding that it is in the interest of the whole family to let one member go under. That way, only one member goes bankrupt and the family fortune remains intact."

For some families, though, a bail-out is necessary and unavoidable. Many of the major trading houses maintained investment departments and inevitably many of these divisions dabbled in Manakh because the returns were so promising. Now the whole company, profitable divisions included, is being called on to pay up on the debts of the Manakh disaster.

As one cynical observer put it: "There are no classical families in Kuwait anymore. Don't believe it when they tell you they were never involved. They all were and they've all been affected."

The Manakh problem also contains the seeds of bitterness for the relations between Kuwaitis and their foreign Arab employees. Thousands of Egyptians, Jordanians and Palestinians passed over money for their Kuwaiti friends and employers to magically multiply on the Souq al-Manakh exchange. Like the Palestinian barber who got in conversation while cutting his hair. He ended up handing over his lifetime's savings, some KD 30,000, the result of 22 years work in Kuwait.

Today that Palestinian barber stands somewhere near the end of the queue in the line of creditors. Or the interior decorator who undertook KD 500,000-worth of work for another of the big and now very broke speculators. One one is even willing to guess when the trade related creditors are going to have their share of the final meagre pay-out when it comes. That could be years away).

All such stories—and there are thousands of them in Kuwait—will only add to the silent resentment already felt by many foreign Arabs.

The promise of instant fortunes lured everyone in. Contractors used their advance payments on contracts to play the Manakh. Some even bid at very low prices assuming that the Souq exchange would make



A decline in sales of luxuries like the Rolls Royce has been one effect of the Souq collapse. However, at least two potential customers are still interested enough to give the car close scrutiny

up the difference. Today, projects in both Iraq and Kuwait face the prospect of incompleteness, penalties and huge losses for the contractor.

Industrial organisations, too, were rumoured to be taking their loans from the Industrial Bank, and playing the exchange for a couple of months to pay off the loan and buy their capital equipment.

No one knows yet the future of the 50-odd closed companies which were formed between 1978 and 1982. Established as "real estate" or "investment" companies, these ventures, many of which had initial capitals of KD 20m, were formed largely for the purpose of securing funds with which to play the exchange. Today they are overburdened with some of the

Effects of the Souq collapse

KATHLEEN EVANS

biggest post-dated cheques, and few can even issue a balance sheet.

Balance sheets have become a major problem in Kuwait, for until there is some indication of how much each individual post-dated cheque is worth, or whether it is worth anything at all, many companies are unable to determine whether they are in a profit or massive loss position.

At the end of last year, the commerce ministry suggested that when drawing up balance sheets, companies should follow the formula laid down by the Chamber of Commerce. However, the Chamber of Commerce

solution on settlements has been more or less abandoned, and no guidance on the matter has been issued since.

Meantime, local auditors are recommending that clients make 100 per cent provision for any post-dated cheques. "Otherwise, we are unable to say whether the balance sheet represents a fair reflection of any company's situation. We cannot quantify any provision for the cheques because there is no guidance on this," said one. A lot of balance sheets were going out with disclaimers on them.

The uncertainty over everyone's worth has caused a fall in trading in Kuwait. The slow-down began in fact before the actual crash in September, explained one prominent trader. "People were dumping goods in the market, selling their shops and not re-stocking, just so they would have the cash to play the stock exchange."

"Now they cannot think of business at all. They are too busy wondering whether they are going to jail or the bankruptcy court," the general manager of one trading agency added. The downturn in trading has been particularly felt in the luxury end of the consumer market — Rolls-Royce sales have dipped for example, and people are putting off ordering capital items for their businesses until next year or until confidence returns.

A lot of small traders have already gone under, say agencies, and as a result credit lines have tightened up. Some companies are already asking for money up front before work begins on any contract. Banks are said to be tightening up on credit and company overdrafts. Several companies say they are already trimming their staff in preparation for what promises

to be an extremely lean year. The only sector of the economy likely to experience a boom in the next few years as a result of the Manakh crisis is the legal profession. Already some 60 people have been referred to the court for investigation for possible prosecution for bankruptcy. Yet in spite of the bonanza of business ahead for the lawyers, a number are concerned about the long-term effects the crisis will have on the legal system as a whole. At the moment, lawyers are playing only a limited role because to a large extent, actions for bankruptcy have been frozen by the emiri decrees of 1967 and 1969. It is the government-appointed arbitration panel which is deciding who may be possible candidates for court action.

Already, a number of lawyers have characterised the proceedings at the arbitration panel as "corrupt and unjust." Lawyers are given very little opportunity to score points for their clients with the committee. "We go along with our clients just for moral support and comfort — not as lawyers," said one local counsellor.

The greatest threat perhaps for the legal system is the need for haste. The economy, the society and the government needs a quick solution to this Manakh problem so that its cloud does not hang over Kuwait for long.

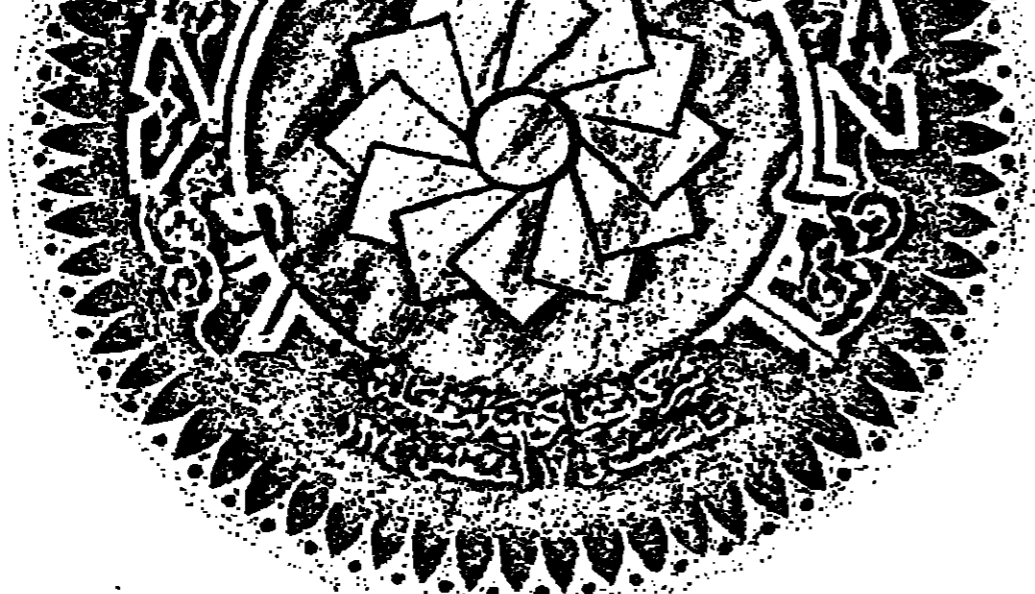
The problem is that justice is rarely seen to be speedily done. For a start, Kuwait is likely to suffer a shortage of judges to adjudicate the upcoming court actions. The Government says it wants to offer "over-ready solutions" to the courts so that the proceedings will not overburden the legal system.

The magnitude of the legal problem is staggering, not only for the number of people who may face bankruptcy (and they could run into hundreds) but their creditors run into thousands. Even without the trade-related cheques and debts, the tangle of indebtedness on the stock exchange transactions is going to prove a difficult problem to unravel, no matter how informal the negotiations are.

Naturally, the lawyers are assembling every possible kind of defence for their clients. The most popular which may be used is that the Souq al-Manakh was an illicit and unrecognised exchange, and therefore all transactions there are invalid.

As one lawyer said: "This could go on for years, if not decades."

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FINANCE

KUWAIT IX



The stock exchange: the 1981-82 saga of over-optimism followed by collapse was a re-run of what happened on a smaller scale in 1976-77

How dealers failed to learn the forward cheque lesson

THERE IS a tendency to discuss the forward-cheque crisis in the Kuwait market in terms that suggest that the trouble is confined to the unofficial market in Gulf shares in the Souq al-Menakh. This is only partly true. At the time that forward dealings were finally banned, the gross open position in Kuwaiti shares listed on the official market amounted to over KD 4.1bn (roughly £8bn at the then rate of exchange).

It is true that within this gross total there were a lot of offsetting transactions which, had they run to settlement, would have partly netted out but the same was true elsewhere. More to the point it was possible to calculate that for all the forward positions in the official market to be successfully covered, spot prices of the underlying shares would have had to double between September and December 1982 and double again in the first five months of 1983.

These calculations were possible because, for the official market, weekly figures were published of the amount, value and settlement dates for forward deals. No similar figures were ever published for the Souq al-Menakh but the general assumption was that the situation there was even more unreal.

During the whole period of speculative frenzy the Gulf share market tended to lead the way first up and then, after May 1982, downward again. The same operators were to a large extent active in both markets but tended to concentrate first on the unofficial market, because the relatively low unit prices of shares there made them more attractive counters.

The forward-cheque game—in which one of the rules is that the seller customarily delivers the stock at once, only the settlement being deferred—can only be played if the share in question can be readily traded in the cash market. The more actively traded Kuwaiti, as opposed to Gulf, stocks tend to be the banks and real estate companies which typically stood at between KD 15 and KD 25

at the top of the boom. This meant that a new entrant to the game had to find around KD 15m to KD 25m minimum stake to get in. The tendency then was to play first in the low-priced Menakh shares and perhaps move later to the heavyweights.

A typical comment in April and May 1982 when the official market was sucked upwards by the whirlwind from around 490 on the Euro-Kuwaiti share index to around 580—a gain of nearly 20 per cent in a matter of two weeks—would be: "If Gulf Investments is worth KD 1, Gulf Bank must be worth a lot more than KD 23."

Any suggestion that the first part of this statement was a subjective view with little relation to true values would be regarded at that time as in poor taste if not downright subversive.

At the best of times Kuwaiti share prices are based much more on hope and expectation than on any consistent evaluation of underlying performance. In the early summer the only consistent basis of evaluation was fantasy.

As a result cash prices for the official market moved quietly and sideways for the first three months of 1982 but in the latter part of April there was a hectic burst of activity. Prices peaked out at just over 500 on the index in mid-May. Thereafter there was a steep slide all the way back to 500 in mid-August.

The spreading word that the Government was about to act to stem the fall then caused a hectic three-day burst which carried price levels back to 540, but, as soon as it was found that no government money would be on the table, prices, and volume, slumped again, bottoming at 460 in late October.

Since then the operations of the government support fund, buying small lots of not more than 5,000 shares at fixed prices, has put a floor under the market at a cost to public funds of around KD 500m in the past three months.

The other interesting point about the saga of over-optimism followed ultimately by collapse

in 1981-82 is that it is a re-run of what happened on a smaller scale in 1976-77. Taking January 1 1976 as a base date of 100 for the index of all shares, price levels rose to 230 at the end of November with real estate and investment companies far outstripping the all-share average.

The official stock exchange

CHARLES SABINGTON

As prices rose, forward dealing by post-dated cheques also built up, though premiums never rose higher than 25 per cent for 12 months' deferment of settlement. This happened in spite of the fact that at that time forward dealings were officially prohibited.

Unlike 1981-82, however, the forward dealings did not drag the spot market up but represented only the froth. The main driving force for share prices in 1976 was the steep escalation in property prices at that time, as is shown by the fact that it was real estate, investment and insurance companies that led the market, with banks playing a very modest role.

Some observers, however, noted early in 1982 that the basic condition of the market was very much as it had been early in 1977. The high level of share prices led to a spate of rights issues by listed companies and a surge in new company flotations. In 1977, as in 1982, forward buyers found themselves committed to paying a premium over 12-month old spot prices which were well above the levels currently prevailing at which they could hope to close out their positions.

The fall in the market over 1977 as a whole was about 25 per cent from the peak of November, 1976.

This was a slightly greater but less steep fall than the 28 per cent drop in official market

from May to October, 1982. Two major differences, however, are that in 1976-77 unit share prices, being based on par values of KD 7½ or KD 10, were a great deal higher than they are now. Bank shares at that time were typically priced between KD 100 and KD 250. This limited the number of those able to play. Secondly in 1976-77 there was no Souq al-Menakh.

The decline in prices in 1977 was not, in fact, extreme by Western standards, still less by those of Hong Kong. But some of the more active stocks fell by more than the average and by the end of the year some investors were in deep trouble. As a result, in spite of successive denials by authorities such as the Governor of the Central Bank and the then Minister of Finance, the Government finally stepped in by setting fixed floor prices at which Kuwait Foreign Trading Contracting & Investment Company (KFTCIC) would buy in any shares offered.

This meant that any investors in trouble could at once put a maximum limit on their exposure, whether on account of cash or forward deals, and make bank or other arrangements accordingly. Or, of course, they could sell to the Government.

One well-known speculator was first through the door, slapped down his share certificates and said, "That will be KD 1m please" and walked out saying "I am never going near that market again." Three months later he led the race to be the first man to register on the boards a deal in the newly opened temporary trading floor.

This operation cost the Government around KD 15m in the first three months of 1978 before the operation was suspended. Of this around 80 per cent (KD 120m) was spent on the shares of just four companies. Not a single bank share was sold to the Government. Indeed the directors of the banks went to some pains to keep their prices above the Government's buy-in level.

Nevertheless this episode fostered the belief that investing in the Kuwaiti market was virtually risk-free. Not only could one be assured that the Government would never let a company go to the wall, they would almost certainly always in the end take steps at least to limit investors' losses.

This facile optimism to an extent underpinned the excesses of 1981 and 1982. There were always some who cautiously drew a distinction between government support for officially listed Kuwaiti companies and investors in their shares, and support for off-shore companies, which in many cases were so formed with the specific purpose of avoiding Kuwaiti regulations.

Others pointed out that from the formation of Sharjah Group, the first of these, until at least mid-1980, the Government had issued a series of notices banning all dealings in Gulf companies. On one occasion the Ministry of Commerce in a dawn raid closed down all their registrars' offices but the traders found little difficulty in registering by telex in Bahrain or elsewhere.

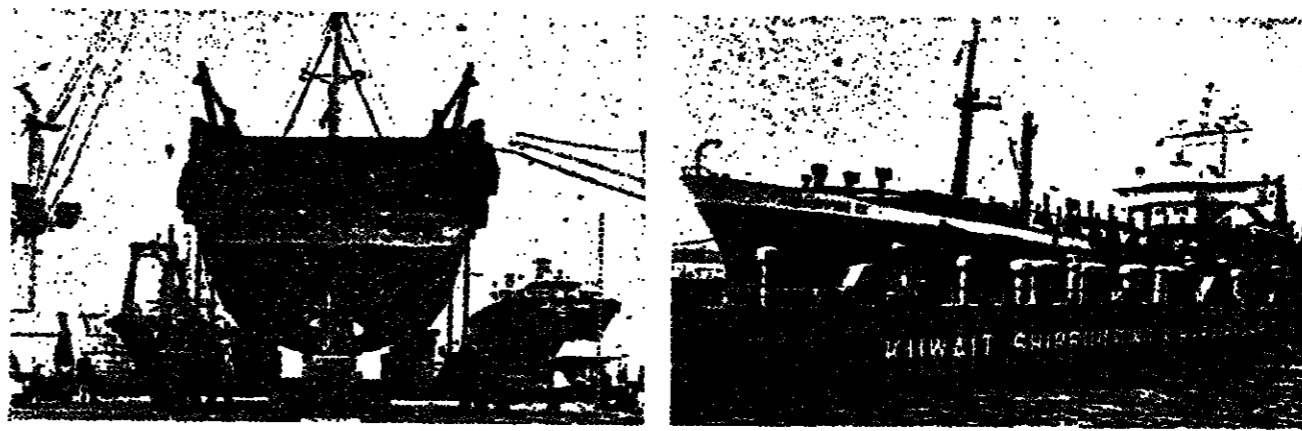
Those at the heart of the game, however, gave no heed to these doubts and never paused to consider how the Government could possibly sanction a rescue scheme on 1978 lines for dealings which it had specifically condemned as illegal.

Kuwait is not the only market where speculative frenzy takes hold from time to time. Nor is it the only market where the lessons of one disastrous episode are quickly forgotten. Within recent memory the same has happened in Australia and in Hong Kong.

There are few other countries however where the stock market is such a prominent part of the economic and social fabric or where the sums at stake among individuals are several times the total assets of the banking system.

The year 1977 showed that the forward cheque game only pays as long as prices go on rising. Five years later the new generation showed that they had not learnt that lesson.

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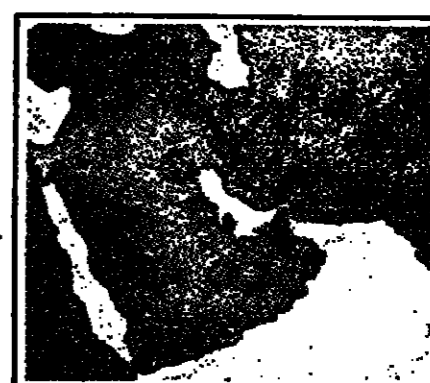
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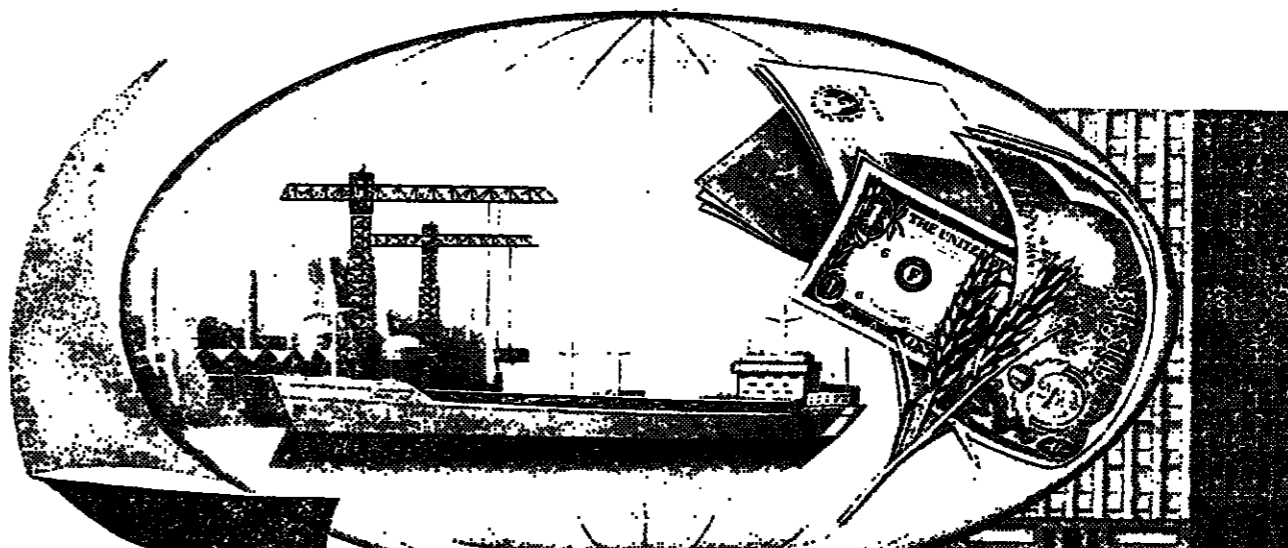
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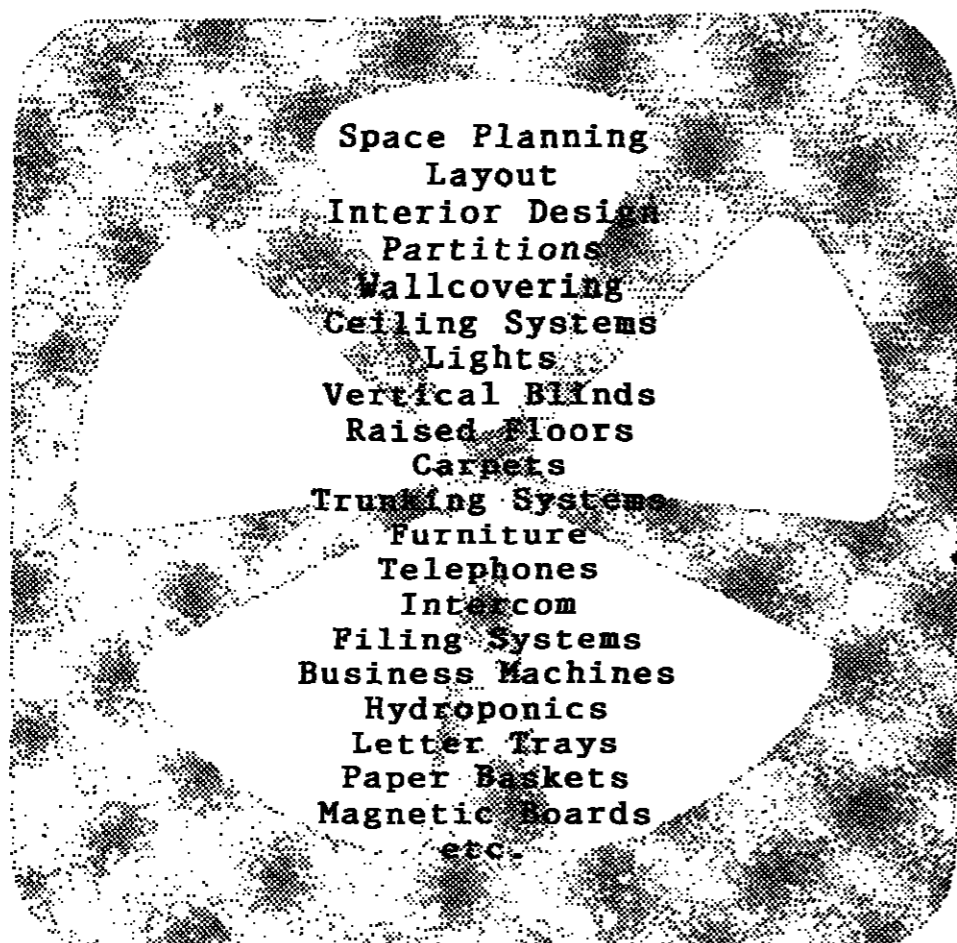
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(Figures in Kuwaiti Dinars)

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KUWAIT X

'Unless ministers act this market is finished'

"NOW could I dare walk into someone's office and offer a 13 or 14 per cent yield on a KD bond when the guy was making a 30, 50 or 100 per cent return on the Souq Al Manakh?"

There, in a nutshell, is one leading Kuwaiti banker's analysis of why the KD bond market shut down last June. "It was simply impossible to compete with the Souq. Nobody was interested," commented another hapless bond salesman, referring to the high returns Kuwaitis were achieving by playing the country's unofficial stock market through the use of post-dated cheques.

The KD bond market, which started in 1974 with the first-ever public issue, has been moribund now for eight months. Not a single new issue has been launched and it is widely believed in Kuwait that only a signal from Mr

KD Bonds

ALAN FRIEDMAN

Abdul Latif al-Hamad, the Finance Minister, can re-open the market.

There were seven new public KD bond issues in the six months which ended last June, bringing the total outstanding volume of KD bonds since 1974 to around KD 500m (\$1.7bn).

The market closed down with a KD 7m, 12½ per cent five-year bond for the Oesterreichischer Kontrollbank, lead-managed by the Kuwait Foreign Trading Contracting and Investment Company, one of the "Three K's" which dominate the market.

Retail investors do not really exist in the KD bond market, but even institutional investors were more intrigued by the Souq than by bonds. The Kuwait Investment Company, another of the "Three K's", scrubbed plans to launch a 13 per cent bond for a European borrower last July because of this phenomenon.

KUWAIT DINAR BOND ISSUES—1982					
(in KDm)					
Borrower	Amount	Maturity	Coupon	Original price	Lead manager
Charbonnages de France	7	1989	11½	100	KFTCIC
Enso-Gutzeit Oy (Finland)	5	1989	10	91½	KIIC
Dart and Kraft Finance NV	7	1989	11½	98	KIIC
Richardson-Vicks Finance NV	7	1987	12½	100	KFTCIC
Banque Nat'ale de Paris	7	1989	10	85½	KIIC
Orient Leasing, NV (Orient Leasing Co. Ltd and The Sanwa Bank, Ltd)	6	1987	12½	100	KIIC
Oesterreichische Kontrollbank Aktiengesellschaft (The Republic of Austria)	7	1987	12½	99½	KFTCIC

KIIC: Kuwait International Investment Company

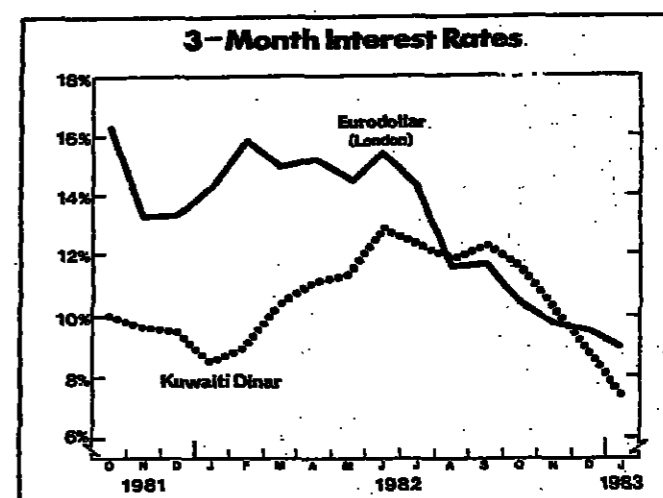
KFTCIC: Kuwait Foreign Trading, Contracting and Investment Company

Now that the Souq has crashed, all of Kuwait is obsessed with the KD 37bn (\$94bn) of post-dated cheques (this is chronicled elsewhere in the survey). Bankers point out that as a result of the financial uncertainty resulting from the cheque mountain, underwriting bonds is a luxury few in Kuwait have time to consider.

Not only do many in Kuwait not know what their financial position will be when the cheques are eventually sorted out, but they are also afraid that if a KD bond issue came to market now there could be political repercussions about the export of capital.

What future, then, for the KD bond market? The secondary market is doing well because of the shortage of new paper and the dramatic fall in short-term KD interest rates over the past few months. The six-month so-called Kuwaiti interbank offered rate (Kibor) has come down around 5 per cent to a 6½ per cent level. This has naturally helped the bond market's trading side as average secondary bond yields are still around 11 per cent. Secondary bond prices have risen by around 10 per cent since November.

The Arab Company for Trading Securities (ACTS) is Kuwait's main secondary market-maker and reports that trading turnover during 1982 reached a level of close



Marion Sadger

to one-third of all outstanding issues. But as one market participant noted: "The sad thing about this sector is that just as prime names were coming to the market last year, we halted new issues."

The KD bond market, according to its leaders, is unlikely to reopen until the post-dated cheque problem is at least partly resolved. Optimists in the market predict a new KD bond issue in six months.

But nearly everyone in the KD bond market agrees that as much of Kuwait's financial

life is influenced directly or indirectly by the Government, it is up to the finance minister to lead the rebirth of the new issue market.

One pessimistic KD bond trader concluded: "Unless Abdul Latif is committed to it, this market is finished. We need a signal from him if the market is going to continue."

This view is substantiated by Mr Abdul Latif al-Hamad himself: "I am not going to give a signal now. This is the wrong time. I'm not going to open the door yet."

Middle ground's plea for help

KUWAIT'S real estate market has inevitably been affected by last year's Souq. The Souq al-Manakh's unofficial share market. Some prime development land and a few now notorious buildings changed hands in a string of deals at premiums similar to the Souq and on forward cheques. Overall, however, the real estate market has so far shown considerable resilience.

None the less anxiety is now emerging about the sale of real estate to meet Souq obligations. "Real estate is a very sensitive issue," says one of the private sector real estate companies.

The Government's line is that the real estate market is buoyant; residential development lots do not need protecting against erosion of value or future gaming and commercial rents have risen. Finance and Planning Minister Abdul Latif al-Hamad said recently that on commercial property people are now accepting much lower yields. Prices had gone up while rents had doubled per cubic foot over the last two or three months. "We may be facing a crisis down the road."

The Government does not intend directly to support the real estate market. "We will not fund for the real estate market," he said. "The price of land in Kuwait is unrealistic. It has gone up four times in two years. If there are liquidations and prices change it will be a natural correction for this growth."

Real estate transactions over late 1981 and 1982 have not been collected by the Kuwait Clearing Company (Kuclear), set up to sort out the Souq forward cheques, nor, as in the case of Law 57 on Souq forward cheques, has there been any legal change in the redress available for bad cheques.

Kuwaiti citizens are expected to sort out their own real estate transactions, forward purchases and cross-indebtedness. Though there were far fewer players in this market than in the Souq, the individual sums involved were large and some of the real estate chain transactions are likely to sweep in a number of "hard luck" cases. Equally, if without fresh flexibility of timing or instruments the Government continues its hardline of the process of law for all, potentially solvent but temporarily illiquid people could have to liquidate property to meet Souq obligations.

Any hints of uncertainty in the real estate market tend to make Kuwaitis a bit jittery. Trading, the official stock market and real estate are Kuwaiti citizens' domestic sources of wealth, and of these, with stock market activity low

and trading prospects poor, real estate gets the best prospects. Known to the Government is taking a hand to sort out the Souq debacle but will not directly assist in real estate. Kuwaitis are giving priority to settling their real estate positions.

"I'm very afraid of cheques related to property," says one Government source. Commercial banks and investment companies are also concerned about the impact of Government policy on the real estate market. Fears are that while the small investors are being protected and the big boys are going to the wall the Government is not helping the middle scale investors. A commercial banker comments: "No one knows how many bankruptcies will occur if the process of law goes through as it is. The Government has to do something for the middle group, the illiquid banker."

These are the investors from whom the real estate dumping is likely to come, he says. Indirectly the Government is already supporting the real estate market, through its purchase of some KD 500m worth of official stock market shares, its land acquisitions of KD 452m over fiscal 1981/82, its KD 500m funds for the small investors and its purchase of some KD 500m worth of KD 300m to KD 400m worth of commercial banks. In another move the Government is making one year bridging loans available through Kuwait Foreign Trading Contracting and Investment Company (KFTCIC) and Kuwait Investment Company (KIC), both government controlled institutions. These loans with a possible one year extension, will be at between 8.5 per cent and 10 per cent about 2 per cent below the commercial banks' rates, and will be available against collateral of 75 per cent of shares and 80 per cent of real estate.

The loans will be assessed against the borrower's real estate valued at current market prices by a new team of assessors. They will not be available against a borrower's only piece of property. The terms, though easier than the commercial banks', are seen as not soft enough. "The Government should ease credit criteria and take less collateral to help investors," says one banker.

"People are very spoilt," replies a government source. "If we offered them 3 per cent they'd say it was hard." There are signs, however, that the Government does not anticipate full repayment of these loans. It is too early to tell how the real estate market is moving. Kuclear has only just begun releasing cheques for settlement, so none of the feared chains of bankruptcies

have yet occurred. People are still hanging on to real estate so current estimates of real estate prices are hard to come by.

Before August 1982 there had been a sharp escalation in prices for both residential and commercial property in Kuwait city itself and in prime areas outside the city limits. Over 1981 and 1982 prime commercial development land inside the city rose by some 70 to 80 per cent. Rents also rose and key money, especially near the Souq, rose enormously.

Since August 1982 residential development plots have dropped by between 20 and 30 per cent and similar commercial land by some 15 per cent. Key money is down by around

other property or a combination of these.

Attempts to disentangle these chains are hitting real difficulties in establishing ownership and setting the levels at which to discount the forward premium. Some property deals went through purely as a financing exercise. Others had a genuine development premium.

Dealers in this market too are being encouraged to settle privately. An investment company explains: "There have been lots of defaults in real estate cheques but in most of the cases the deal have been cancelled. We had one such sale, so we took back the property, tore up the cheque, the power of attorney was nullified and we sold on to another purchaser. There was no point in sending anyone to jail."

Any private settlement involving people already under security by the government arbitration panel requires the panel's approval. Further problems in disentangling the chains lie between the original vendor possessing title and the ultimate purchaser with power of attorney.

If the vendor goes bankrupt the subsequent chain is likely to get nothing. If the vendor sues the ultimate purchaser for a bad cheque, the intervening purchasers can enter the lawsuit also claiming an interest.

There is still no consensus on the likely price of real estate over the next few months. The Government's land purchase programme, always an agent for spreading wealth in Kuwait, has doubled its budgetary allocation for this fiscal year to KD 300m. Whether the Government would step in, in spite of public denials, should real estate substantially fall is unclear.

Some suggest lack of funds would prevent this and that state purchase of shares on the official market is more likely. On past experience, others comment, the Government could not stand to one side.

There is an equal lack of unanimity about where real estate is going in the near future. One side proposes that if the Government does not ease the path of these middle investors, there will be a rash of real estate liquidations and prices will drop. The other school of thought suggests that with increased liquidity in the system through accelerated settlement of cheques, discounted government bonds, lack of genuine investment outlets in Kuwait, a less appealing international investment outlook and weariness over new share investments, people will move back into real estate in late 1983 and the market will swing upwards.

Real estate

CAROLINE MONTAGU

40 per cent. Rents, however, for both commercial and residential property have either remained static or risen, due to a genuine government demand for middle and upper income housing.

Estimates vary considerably about the volume of forward real estate transactions in 1982. Private sector sources suggest between KD5bn and KD10bn but the Government dismisses this as gross exaggeration.

Among the eight major forward dealers, four are known to have dealt in real estate. In general the big players in real estate are different from those in the stock market and from the previously unknown Souq punters. Wealthy individuals and real estate companies have been profiting speculating in real estate for years.

Some of last year's deals fall into the category of normal real estate development. Others became an extension of the Souq when real estate was purchased forward like Gulf shares. Under Kuwaiti law the transfer of title from a real estate purchase should be registered at the Ministry of Justice and a fee, formerly of 2.5 per cent, now of 0.5 per cent of the purchase price, paid.

Last year registration was largely ignored—as it had been to some degree before—and the vendor retained the title but gave the purchaser irrevocable power of attorney. This deal, effected within a day or so allowed the same property to be sold on, and then on, until in some cases chains of purchasers reached 12 or more. The property was bought either with forward cheques, cash, Souq shares, official shares,

FINANCE

KUWAIT XI

Future secure despite loans risk

"I'll be frank with you. Much of our personal lending and even some of our company lending went straight into the Souq. Our board of directors took a decision at one point last year to refuse to lend any money to some of the more notorious of the big Souq dealers. But three of our bank directors had their names published later as having lent money personally on the Souq."

This confession, from an executive of one of Kuwait's biggest banks, illustrates the far-reaching impact of the post-dated cheque crisis which followed the collapse of the Souq al-Manakh. Kuwait's unofficial stock market.

None of Kuwait's major banks are in jeopardy, regardless of their technical position. But conversations with several leading Kuwaiti bankers reveal that the banks have long been aware of where much of their personal/financial services loan advances has been channelled — straight into real estate and Souq al-Manakh speculation.

This is because of the unique cultural approach to banking which exists in Kuwait — loans are said to be collateralised by property and other assets, but in reality a number of loans may be made because so-and-so is someone else's cousin or brother-in-law. The banking community, like the rest of Kuwait, runs on the country's traditional caste system, where one family's name has, in effect, a better creditworthiness than another's.

Kuwait's banks have been very profitable over the past few years. They should be. Deposits are taken not just from Kuwaitis, but also from the prudent and poorly paid foreign workers (Indians, Pakistanis, Filipinos and others). This money is then turned around and loaned at extraordinarily high margins domestically; the margins may be as high as 5 or 6 per cent.

This is not to say that banks in Kuwait are irresponsible. Rather, they have standards which are different from a Barclays or a Deutsche Bank. A foreign diplomat summed it up this way: "Most of the domestic lending is simply what we would call overdraft lending and it is for unspecified purposes."

Of total Kuwaiti domestic lending of around KD 4.3bn (foreign lending amounts to an additional KD 2bn), something approaching 50 per cent has been loaned for what may be termed "personal purposes". Lending picked up in a big way in the past two years when the Souq al-Manakh was in its prime and nearly everyone in Kuwait wanted to play the unofficial market.

After a while, however, the banks stopped funding Souq speculation and the traders started writing more post-dated cheques than ever. None the less, most bankers in Kuwait agree that a sizable portion of the personal lending (around KD 2bn) outstanding may well be at risk. "In other accounting systems we might classify

some of these loans as bad and doubtful risks," explained one British expatriate banker in Kuwait.

What does all of this mean for Kuwait's banking system? Are any of the banks at risk? Hardly. The curious anomaly about Kuwait's banking system is that Western rules simply don't apply here. One must discard all notions of balance sheet health and bad debt pro-

Banking

ALAN FRIEDMAN

visions—and substitute instead a system in which a wealthy government is willing to back the banks to the hilt. There is also an intricate network of leading families who control the banks.

The key to understanding Kuwait's financial system is the country's liquidity. The Kuwaiti Dinar money supply amounts to something in excess of KD 4bn. It has grown dramatically over the past three or four years at an annual rate approaching 25 per cent. In the past few months the government is understood to have pumped in hundreds of millions of dinars, supporting those banks which needed support and bringing short-term interest rates down dramatically by around five percentage points.

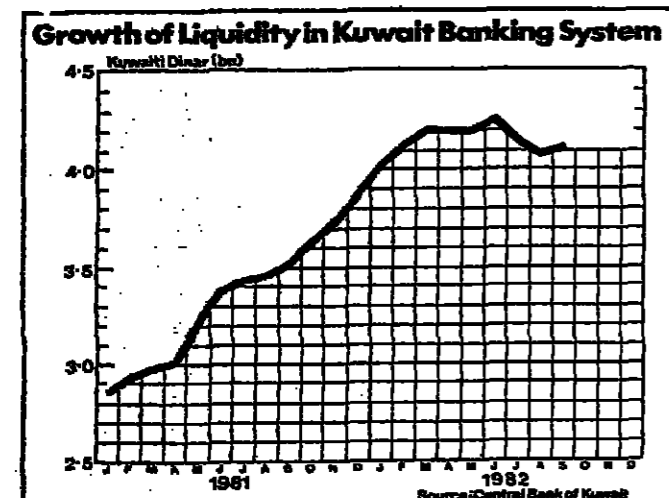
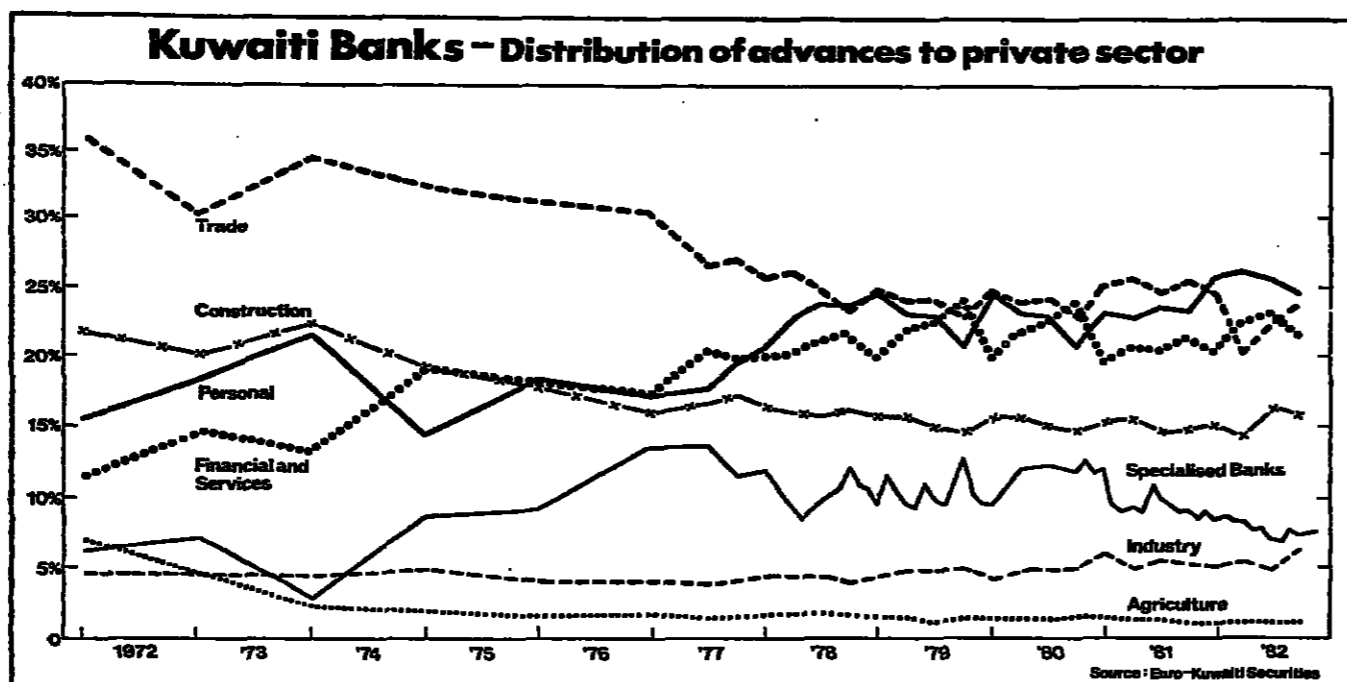
So what does it really mean to speak of Kuwait's banks facing loan losses? At one extreme is an outspoken expatriate banker who sums up the situation (stemming from the collapse of the Souq) this way: "Several of the banks here in Kuwait are technically bust because they have a large portion of loans for which the collateral is deficient, interest is not being paid and reserves, even hidden reserves, are not

sufficient to cover the loans." This statement may seem strong, but there is more than a shred of truth in it, according to other Kuwait-based bankers and diplomats. Collateral is hard to gauge, but if real estate is the collateral then one must question at what book value it was calculated. If shares were collateral, then what sort of shares—official or unofficial ones?

Bankers confirm that many customers are not paying interest. Some are not liquid enough and others are counting on an eventual settlement from the Souq al-Manakh cheque mountain to bail them out. The best private estimates of the hidden reserves of Kuwait's major six banks suggest that the total is between KD 500m and KD 800m. This compares with personal loan exposure of KD 2bn, of which a significant part may have been used for speculative purposes. The numbers are almost too heady to contemplate; fortunately it is unlikely that this will be necessary.

The truth of the matter is that there are any number of informal ways of calculating Kuwaiti loan loss provisions. One banker said: "Of course I am worried about my customers being bankrupted as a result of the Souq crisis. Of course I am worried about the loans we made. But we have a saying here in Kuwait, which translated into English means 'softly, softly'. Foreigners should pay attention to this saying. We can work things out." Mr Abdul Lateef al-Hamad, Kuwait's respected finance minister, is more forthright: "We will always support our financial institutions. We will never ever allow them to go to the wall."

He says that if foreigners are going to judge Kuwaiti banks



PROFILE: JASSIM AL-MUTAWA

The man who owes \$10.5bn

AFTER spending a couple of hours in his small suite of offices at the Souq al-Manakh building in central Kuwait, it is hard to believe that Jassim Al-Mutawa is a man who owes \$10.5bn and is well on his way towards becoming the world's largest-ever personal bankrupt.

Watching him slipping his Turkish coffee, reclining in his overstuffed leather-backed swivel chair, wearing his arms to make a point, it is also difficult to believe that he faces criminal prosecution and perhaps even jail.

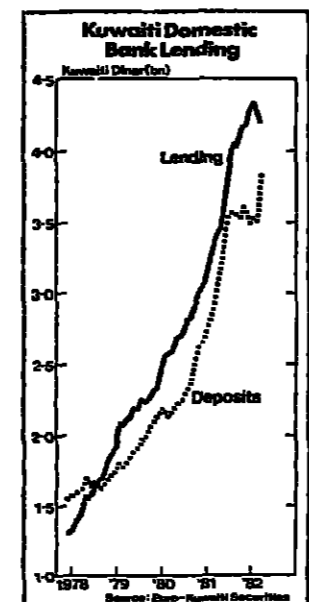
As known to all of Kuwait, he is a cheerful man, proud and self-assertive. He was the biggest dealer on the now-collapsed Souq al-Manakh and he wrote a lot of post-dated cheques. He reckons that while he may owe KD 3bn (\$10.5bn), he is owed KD 2bn leaving a net liability of "only" KD 1bn to pay. This, says Jassim, is no problem.

He says he has land (including a palace in Winchester, England) and plans to cover the KD 1bn. Unfortunately, some KD 570m of this KD 1bn (\$3.5bn) is in Souq al-Manakh shares—the value of



Jassim: "They all talk about me"

these shares is dubious at best. Jassim, a former passport clerk, certainly has style. Before settling down to chat he signals to his assistants to bring in Marlboro cigarettes and Turkish coffee. He even lights a ceremonial incense bowl: it will bring good fortune to all who take a whiff of the aromatic smoke, he explains. Jassim knows of his fame



in Kuwait: "Jassim, Jassim, Jassim they say. They all talk about me. I will tell you the truth. I know I have done nothing wrong. There are 6,000 other Jassim al-Mutawas in Kuwait. If they want to put everybody in prison, let them."

The reason for his downfall? "There was a killing jealousy. I am one of those young people who became something in a very short time," he says.

Jassim says he was planning to use some of his Souq profits to expand, but he did not have the time. "I had plans to invest outside of Kuwait as well, but my luck started to run out."

As for his properties abroad—in London, Winchester, Spain and Switzerland—Jassim says the Government has forbidden him to leave Kuwait and thus he cannot sell them. "I was asked by the Government to sell those properties. I told them—'How could I sell if I am not allowed to travel outside of Kuwait?'"

In the end, Jassim reckons he has nothing much to fear, well maybe only one thing... "I am not afraid of anything or anybody but Allah."



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Kuwait

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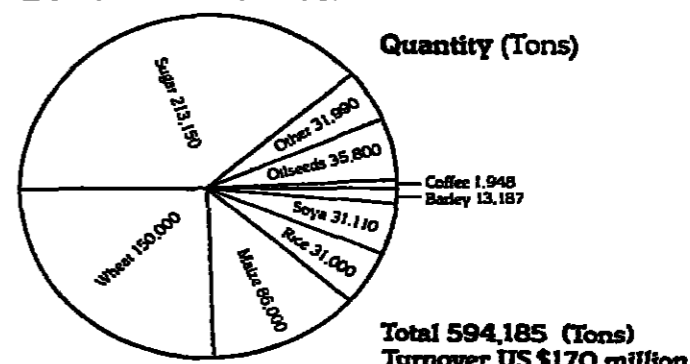
Afarco's story in the ten years since its establishment in 1972 has been one of continuous growth in all activities.

Capital: Afarco was established with a capital of KD 2 million (US\$7 million). In 1981 the capital was increased to KD 5 million (US\$17 million) and in 1982 this was raised to KD 20 million (US\$ 68 million).

Shareholders: Equity is shared 51% by KFTCIC and 49% by Gulf Financial Centre, which represents the interests of private Kuwaiti businessmen.

With the 1982 capital increase, Afarco was able to consolidate and expand its activities, both commercially and geographically.

1982 Activities



Total 594,185 (Tons)
Turnover US\$170 million

Afarco

AFRO ARAB CO. FOR INVESTMENT & INTERNATIONAL TRADE

Head Office: Al Dawliah Commercial Centre, Hilali Street, P.O. Box 5024 Safat, Kuwait
Telex: 22081 AFARCO, 46745 AFARCO. Telephone: 423380

Foreign workers essential to the economy

"MATRIMONIAL" proposal invited from Christian girls for a Kuwaiti Christian youth, 31 years, working in a semi-government company," reads a small ad in a Kuwaiti newspaper, in column after column day after day the matrimonial ambitions, accommodation needs, employment opportunities and changes of name of Kuwait's Asian immigrant population are revealed.

As in the other small oil states on the western side of the Gulf, nationals are in a minority in Kuwait. The 1980 census showed there were 555,000 Kuwaitis compared to 792,000 non-nationals. The disparity in the work-force is even more pronounced with more than 70 per cent of the labour force drawn from the non-Kuwaiti population.

Kuwaitis are numerous, however, compared to the rest of the Gulf. Abu Dhabi and Qatar each have only about 70,000 citizens. Like them, the country has two labour markets, migrant and national, but the latter is more variegated and better educated than in the rest of the Gulf with the single exception of Bahrain.

Kuwait also differs because a larger proportion of its immigrant population is from the Arab world. The percentage is now falling but in 1975 one in five people in the country were Palestinians or Jordanians. The number increased rapidly after independence in 1961 and, together with Egyptians, they make up a large proportion of the professional class.

From the late 1950s, the need for unskilled labour was mainly filled by Iran and Iraq. The opportunities available in Kuwait were much greater than those at home. Political instability and the wish to avoid military service were an additional motive for immigrants.

It was only in the 1970s that oil wealth in Iraq and Iran began to ensure that both ceased to represent a pool of cheap labour for Kuwaiti construction sites. By then, in any case, their citizens were having to compete with much cheaper Asian labour.

In 1975 the census showed Indians and Pakistanis as forming only 5.5 per cent of the population. There was no significant Indian merchant class as in Dubai. But in the following years the statistics showing the number of residence permits issued for the first time for workers in the private sector illustrated the increasing preponderance of Asians.

More Indians and Pakistanis entered the country. But there was also a growing preference for east Asians such as Koreans and Filipinos. This is clearly seen in the construction industry. Of 9,629 permits issued in 1980 to Koreans, no less than 9,497 were for construction workers. They had the advantage of working as tightly knit groups on specific contracts and departing when that contract was completed. They did not remain behind to add to the total labour force.

There is a clear division of labour in the expatriate communities. For instance out of 21,700 teachers in Kuwait in 1981, 9,360 were Egyptians and the local education system is modelled on that of Egypt. Iranians, on the other hand, have normally performed marginal manual jobs.

Overall the foreign labour force is clearly vital to every sector of the Kuwaiti economy.

Labour

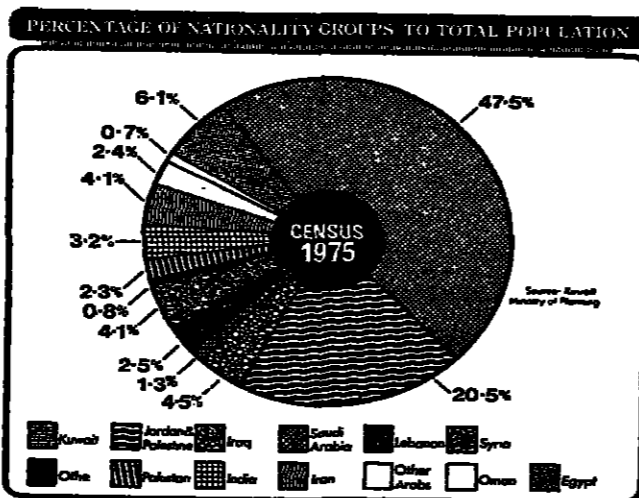
PATRICK COCKBURN

Its presence is also a crucial method by which the Government distributes money to its own nationals and spreads out the oil wealth. A newly arrived migrant worker will often spend up to 60 per cent of his income on rent to a Kuwaiti landlord.

However, the speed at which the foreign labour force increases may be curtailed in future for three reasons. Much of the infrastructure in Kuwait is already built and while some new facilities such as power stations are needed they will probably be built by workers living in enclaves and separate from the main labour force.

Kuwait also has few plans to increase industrialisation. Its ambitions in this sector have always been less than those of, say, Saudi Arabia. "The truth is that every additional job provided by a project will have to go to a non-national, and this will in turn entail considerable added investment in services and infrastructure," said Mr Ali Khalifah al-Sabah, Under Secretary of the Finance Ministry, in 1976.

Thirdly, Kuwait has been tightening up on the enforcement of immigration and residence laws. Governments in the rest of the Gulf follow similar policies. The influx of foreign labour has created nervousness.



As political tension in the Middle East increased after the Iranian revolution, governments in the oil states eyed their immigrant communities with some anxiety. The 1980 census also showed how the Kuwait proportion of the population had fallen.

Government apprehensions are mirrored at a popular level. A study carried out by two academics from Kuwait University last year showed that 44 per cent of 22,853 nationals from Gulf countries who filled in a questionnaire felt "their economic well-being" threatened by expatriates.

Last September illegal residents in Kuwait were given two months to regularise their papers or leave. More than 50,000 — and some diplomats say as many as 100,000 — workers have now departed. Others will find it more difficult to shift job and employer within Kuwait in future.

The impact of the departure of illegal residents has been rapidly reflected in the unskilled and semi-skilled wage levels. In some cases the daily rate for an unskilled worker has tripled to KD 15.

The worst hit by this, apart from the departed workers themselves, are local contractors who suddenly find their costs soaring as they have to pay more for labour.

International contractors have an advantage here. They often bring their workforce with them and are therefore largely immune to changes in the local labour market. A skilled welder is said to cost KD 8 a day if brought from outside but KD 25 if hired in Kuwait.

Many local contractors believe the Government will relent in its new policy because of the economic cost. They may be right. But tighter resident and immigration control is the pattern up and down the Gulf.

The identity and traditions of Kuwaiti society should be preserved, said Mr Mohammed al-Adasani, the speaker of the National Assembly, recently. Relaxation is likely to be slight. The new regulations will not, however, imperil the existence of two parallel labour markets. At all levels the shortage of

Kuwaiti labour will continue. The vast majority of jobs will continue to be filled by expatriates.

But the number of Kuwaitis in the labour force should soon increase rapidly. The rate of natural increase is high and almost half the Kuwaiti population is under 15. By the 1980/81 academic year there were 153,000 Kuwaitis at school and another 9,000 at university, a third of them overseas. The number of illiterates in the population should also diminish.

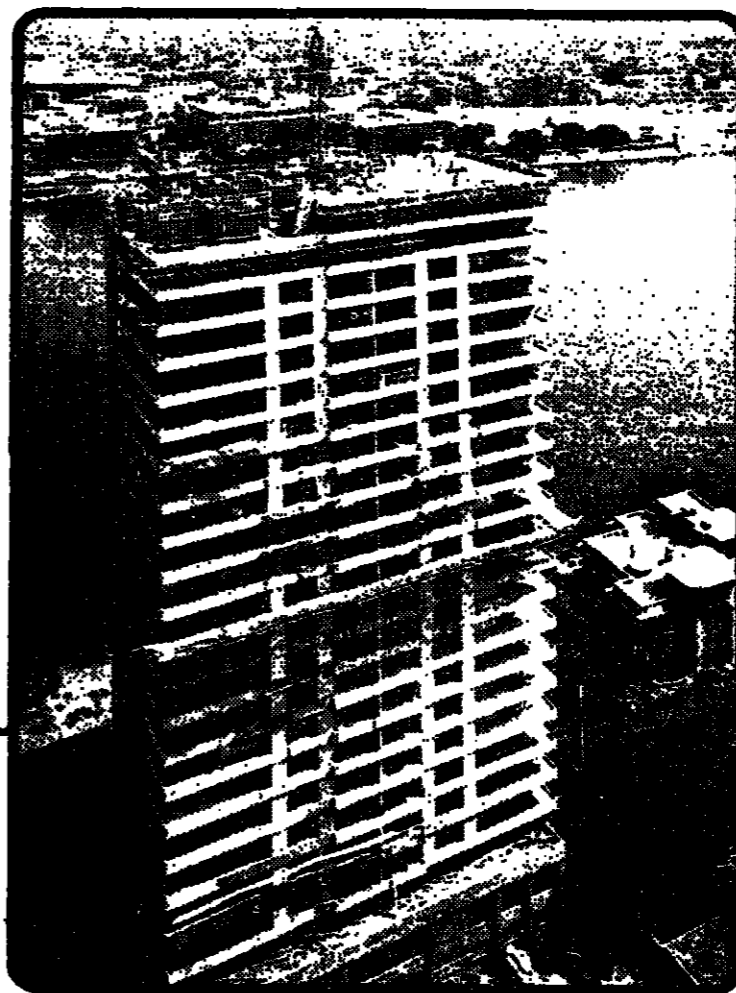
In theory these educational advances should lead to Kuwaitis pushing many expatriates out of professional positions they currently occupy. It is, however, by no means clear that they will do so. There are a whole range of technical and manual occupations which Kuwaitis will not fill because to do so would involve an immediate loss of status.

But the chief consideration for Kuwaitis is the availability of employment in the civil service. Mr Shamlan Yalassa in his study of the manpower problem in Kuwait notes that as in other less developed countries "education is a passport to the Government's bureaucratic hierarchy." The Government gives reasonable salaries in the civil service regardless of degrees acquired. Most government offices are heavily overstaffed in order to provide these jobs and presumably will continue to be so.

The basic distinction between the two labour markets is, however, unlikely to be eroded. Native Kuwaitis are defined in the 1959 Nationality Law as those who lived in Kuwait before 1920 and have continued to live there ever since. The Government does have the power to grant nationality to those who deserve it and this has been used to give thousands of bedouin.

It is sometimes suggested that the Nationality Law should be changed to give citizenship to Arabs, many of them Palestinian who have been in Kuwait all their lives. This is extremely unlikely to occur. The trend up and down the Gulf is for citizenship to be defined more and more strictly.

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Waiting for the war to end

ECONOMIC retrenchment in Iraq and a recession at home induced by the stock market crisis have combined to decimate the once-booming transit trade through Kuwait.

Many one-man truck operators have already gone to the wall, while small and medium-sized businesses are facing severe difficulties. Importers are stuck with large inventories of trucks — including Mercedes, for which buyers were willing to join a waiting list not so long ago.

The investment in the industry is large by any standards. By early 1982, there were some 3,000 trucks working the Iraq route, of which about a third were operated by transport companies and the remainder by clearing houses and owner-operators.

At an average cost of KD 20,000-30,000 (\$68,500-\$103,000) for a tractor-head and trailer, these represented a total capital investment of up to \$300m. This does not include the costs of administration and maintenance facilities, spare parts inventories or other overheads.

The boom started after the Gulf war and the closure of Iraq's only port at Basra. Traffic volume built up throughout 1981, when Iraq attempted to pursue a "guns and butter" policy. Accurate estimates of the trade are difficult to come by. Official statistics show a total of more than 6m tonnes in 1981 but these are widely thought to be exaggerated — "for good political reasons," as one source said. A more realistic estimate is that 3.5m tonnes went through Kuwaiti ports en route to Iraq.

The Government has been ambivalent about the trade. It wished to be seen as giving Iraq as much support as possible. At the same time, it feared Iranian retaliation more serious than the warning air raids of 1980 and 1981 — one of which hit a truck convoy near the border.

Other factors were involved. As the volume built up in 1981, Kuwaiti ports were clogged up. Priority was given to ships with Kuwaiti-bound cargo, leading to lengthy berthing delays for ships with transit cargoes. At the peak, an average of 80 ships were waiting to berth for 40-70 days each. Demurrage charges, probably added up to some \$40m, in addition to congestion

surcharges of up to 20 per cent on basic freight rates.

Further problems were caused by the requirement that almost all transit cargoes be handled by direct delivery. This meant that goods had to be unloaded straight from ships to trucks without touching land, which required organisational skills which only a few trucking or clearing firms possessed.

These and other restrictions drove away much of the trade to the Saudi port of Dammam, where the Iraqis were given carte blanche to run their own operations. By the end of 1982, the trade fell off further and freight rates were squeezed as operators tried to maintain cash flow to cover their heavy financing charges. By mid-summer the rate for cement reached KD 3 (\$10.25) a tonne to Basra and KD 6 (\$20.50) to Baghdad — compared with KD 5 (\$17.10) and KD 8 (\$27.30) respectively just three months earlier.

The trend has stabilised somewhat since then, as imports continued for existing contracts in Iraq. But as Iraq's financial problems grow and development schemes are shelved, there seems little doubt that volume will steadily decline unless there is a speedy end to the war.

The damage is not limited to trucking companies. The trade had stimulated complementary industries, including the manufacture of trailers and truck bodies. At one point, Iraq's State Organisation for Land Transport paid trucking firms to convert tipper trucks into bulk carriers for grain shipments.

This opening up a new market for Alam Steel Industries, which had been facing slack demand for its tippers.

The first trucks will roll off the National Automotive Manufacturing and Trading Company's assembly line on Friday, Kuwait's national day. The plant, designed and licensed by West Germany's Magnus-Deutz, will reach design capacity of 1,000 trucks a year by 1986.

Several Kuwaiti companies developed their business beyond simple trucking in 1981 and 1982, aiming to make Kuwait a service centre for contractors working in Iraq. They offered a comprehensive procurement service, building up stocks of inventories or even setting up factories to manufacture building materials, accessories and equipment.

Many of these were hit by the fall-off in business, which coincided with a serious recession at home, where economic activity has slumped in the

Transit trade and ports

SHAKIB OTAQI

aftermath of the Souq al-Manakh crash. To make matters worse, the slump coincided with historically high interest rates — reaching a 20 per cent peak in October 1982 — which made financing these inventories ruinously expensive. The situation has since eased somewhat, with interest rates for commercial loans down to about 11 per cent in mid-February.

Aware of the damage that has been caused to the economy, the Government has recently moved to ease the earlier restrictions on the transit trade. The percentage of Kuwait-bound cargo required before a ship is granted berthing priority has been drastically reduced. Refunds of the 3 per cent guarantee required on transit cargoes — to ensure that they are re-exported — have been speeded up.

On the other hand, stricter control of truck loading is in view to limit damage to roads. Tenders were recently invited for a number of computer-controlled electronic weighing bridges which should make enforcement easier. However, many existing truck fleets will be made obsolete.

This easing of restrictions aims initially to reduce the impact of the recession on the industry. In the longer term, however, it aims to help Kuwait to exploit the renewed business that will come after the Gulf

war ends. Iraq will then face a massive reconstruction effort, while Basra port will take years before it can cope with the demand.

In preparation for this trade, Kuwait is well into a port expansion and modernisation programme. The country's first purpose-built container terminal opened at Shuaiba port in May 1982. It is capable of handling 220 ships and unload up to 1m tonnes a year.

Shuaiba port was designed to handle imports and exports for the industrial area of which it is part. This has developed more slowly than expected, making up to 10 berths available for transit cargoes. Shuaiba port, on the other hand, has mainly been used for Kuwait's general imports, with only two of its 18 berths available for the transit trade.

Shuaiba's annual handling capacity will be more than tripled to 20m tonnes, when a major expansion is completed by the end of the 1980s. Together with Shuaiba's expanded capacity, this should be sufficient to meet Kuwait's needs — both domestic and transit — to the year 2000.

The expansion was originally to have been done in four phases, the first of which was almost due to go to tender when the Electricity and Water Ministry objected that it would interfere with the water intakes for the nearby water distillation plant. The consultant, Associated Marine Consultants of the Netherlands, was subsequently commissioned to redesign the scheme, which will be let in one turnkey contract. A.M.C. has submitted its revised plans for the port, with tenders expected to be invited in mid-1983. Construction should take about six years at a total cost of about KD 200m.

Two-thirds of the berths will be devoted to containerised cargo, both roll-on, roll-off (ro-ro) and lift-on, lift-off (lo-lo). Port management will be further improved with completion in mid-1986 of a headquarters building for the port authority. Road congestion around the port should be eased by an imaginative plan to build a causeway across Kuwait bay to Ras Ashurij, where it will link with the road to the Iraqi border.

Shakib Otaqi is deputy news editor of the Middle East Economic Digest.

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1979	11,493	10,053	2,627	422
1980	19,417	16,656	4,725	957
1981	28,339	24,026	7,079	1,647
1982	38,014	33,555	11,325	1,777

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The new expatriate lifestyle

THE OCCASIONAL visitor to Kuwait is struck by the sudden changes to the skyline as new tower blocks appear and areas of old housing are swept away.

The long-term resident who watches these changes day by day finds them less noticeable because to him they are gradual. Only when a new ring road or flyover helps, or more often obstructs, his twice-daily drive to the office does he comment.

The same is true of the social environment and it is only when one leaves an idyllic society such as Kuwait that one concentrates the mind and thinks what changes, imperceptible as they occurred, have in fact taken place.

During the past seven years the Western foreign community has become both larger and more diverse. After a supper party a year or so ago the host and hostess were mildly surprised when their visitor from England, for whose entertainment they had hired a band, pointed out that the 20 guests had embraced no fewer than eight nationalities. As it happened this included one Kuwaiti.

Longer term residents find it a matter for regret that today there is much less social interchange between Kuwaitis and Western expatriates. At one time it was customary for senior expatriates to visit their Kuwaiti chairman's divanya on ceremonial occasions such as an official holiday or even to celebrate a family event. Often the courtesy would be returned at Christmas or to mark a birthday. Today such visits are largely confined to official occasions.

The Kuwaiti and the Western expatriate communities have tended to become more self-contained and, while relations remain cordial, they tend to be confined to business contacts. This makes it particularly difficult for expatriate wives to make any meaningful contacts with their Kuwaiti counterparts, or indeed the Western wives of their husbands' Kuwaiti colleagues.

Within the Western community itself there has been a significant shift in average age and type of service. Only a few years ago there were many who had spent much of their working life in Kuwait; typically they included doctors, both in the government health service and in the Kuwait Oil Company's hospital in Ahmadi, technical experts in the water and electricity department, and in the oil company. Kuwait Air-

ways pilots and administrators and senior executives in the commercial banks, the investment companies and many private sector companies.

Today the average expatriate tends to be younger, perhaps in his mid-30s, with young children.

Expatriate teenagers are few and far between and, as a result, find Kuwait somewhat restrictive, even for holiday visits, as there are few opportunities for the sort of diversions they enjoy.

Few new expatriates expect to make a lifetime's career in Kuwait. Many expect that this will be one of a series of overseas postings to different places.

Often these work for Western consultants or project managers whose stay is limited by the duration of the project on which they are engaged. Others may work for Kuwaiti companies but no longer find they have the prospect of building a long-term career. They have rather less easy than once it was to move to another job in Kuwait.

Turning to living conditions, there is no doubt that the move towards a more rigorous view of Islamic orthodoxy has led to a hardening of attitudes at least in public statements by the authorities. Some members of the national assembly are also prone to denounce corrupt influences in their midst. The practical effects of these statements is harder to discern.

Black market scotch is perhaps harder to obtain than some years ago and prices are certainly higher, particularly in the couple of months before Christmas. Gin on the other hand, which used to be a rarity on the black market, is now no more (and no less) difficult to

obtain than whisky. This may be the result of a shift in taste among Kuwaitis themselves who, in the past, if they drank at all, were almost exclusively whisky drinkers.

This year, as in several previous years, the Ministry of the Interior forbade celebrations of Christmas and the New Year at hotels and similar public places. In previous years the hotels who had already taken bookings, successfully appealed against this ruling. This year the Ministry, having grown wiser by experience, issued their ruling early enough to prevent bookings being made.

The effect on Western expatriates, who in any case

bought on the beach, are now unavailable from March to July when fishing is prohibited for conservation reasons.

Household appliances have never been a problem in Kuwait but basic furniture of any tolerable design used to be very expensive. This situation is now easier and the choice is wider.

Household staff in the past was often a Goan cook-house boy. Today the Western family more often has an Indian, Sri Lankan or Filipino maid. This is partly a reflection of the fact that they have young children living at home rather than teenagers coming only in school holidays. It is also increasingly difficult to find apartments designed to provide a room for a living-in servant.

The most noticeable physical change is the great expansion of Kuwait's residential suburbs. Where, seven years ago, there was a slightly primitive nine-hole golf course just outside the fourth ring road, there are now great areas of residential villas stretching all the way to the sixth ring road. Many of these are let to expatriates particularly those with small children who need a garden.

Entertainment and social activity is still predominantly in the home though the variety and quality of hotels and other restaurants has grown to the extent that it seems impossible that they can all be profitable. The competition has not led to any noticeable reduction in prices, however.

For home entertainment, Kuwait TV now provides an English language channel which offers certain pleasure to connoisseurs of the local view of how news should be selected and presented. Those who enjoy nature and wildlife programmes can find something to watch most evenings. There are also numbers of Australian-made historical drama series.

ITV's "Match of the Week" is watched on Friday night by Kuwaitis and expatriates alike, and the World Cup received blanket coverage, except for those matches where the referee was an Israeli. For those games one had to switch to Bahrain TV, which also offers a wider selection of programmes of British origin.

New sea-clubs are springing up which, at some cost, offer anchorage for yachts and facilities for water skiing or windsurfing. Several of the larger football clubs also have tennis and squash courts as do some of the hotels. Cricket, hockey and rugby are still played almost entirely at the KOC sports grounds in Ahmadi.

Few Westerners are able to match the skills of the Indian and Pakistani players of the first two but rugby is exclusively a sport for Welsh, English and Australians.

Finally there is the perpetual problem of dealing with the Kuwaiti bureaucracy. Most well-organised companies employ a full-time mandoub (fixer) who knows his way round the relevant departments.

Driving licences for non-working wives are less easy to obtain than at one time in the past but Westerners can usually succeed with perseverance.

Recently, however, matters were eased when licences were given for 10 years at a time which cuts out the annual ritual of trailing round the traffic department. Similarly a new car is now licensed for three years before renewal is necessary.

Telephones are another matter again. Generally once the connection has been made the service, both domestic and international, is adequate and reliable unless there has been unusually heavy rain. Getting a line installed in a new property, however, is a Kafkaesque nightmare.

New rules add to pressure

CONTRACTING WORK in Kuwait is proverbially a minefield where profit margins are narrow, if there are any at all, and clients are ruthless. Certainly, contracts are tightly worded, have virtually no latitude for price adjustments and competition is harsh.

However, consultants and contractors who know the ropes make profits, have stayed for some years and expect future profits during Kuwait's current phase of urban and civil works development and oil and gas sector expansion. One well-established consultant commented that compared with clients in other countries in the region the Ministry of Public Works in Kuwait really tries to accommodate contractors and Kuwaiti clients mainly pay invoices on time.

Business conditions are, undoubtedly tightening, however, as new regulations and directives come into force and as Kuwaiti companies, both consultants and contractors, get a bigger share of the action. One of foreign consultants' more frequent comments is the tendency in the private sector — and the ruling on government contracts — to take the lowest bid can lead to erosion of standards.

"We would like to see a better concept of value for money from our clients," said one foreign consultant, adding that on the charges permitted it was extremely difficult to keep proper professional standards and service and make a profit.

The question of Kuwaiti clients usually accepting the lowest bid is always vexed. In government contracts this is mandatory under the 1964 law governing public tenders with the procedures conducted through the Central Tenders Committee. There are exceptions, for example, in Ministry of Defence procurement. In the oil sector, subject to these requirements since 1979, the Kuwait Oil Company has a long-established tenders

board which by dint of ruthless prequalifying decisions, usually manages to avoid unprofitably low bidding by companies and consequent low contract performance.

Consultancy contracts are under somewhat less pressure. All large contracts are organised through the Ministry of Planning in conjunction with the client Ministry which usually has considerable influence. On major consultancy contracts the award of bids is based on the World Bank's two-envelope practice—one technical, one financial—and contract awards do not go to the lowest. A recent big Ministry of Public Works contract was awarded purely on technical content though the cost was higher.

Even without the obligation to do so, the private sector generally also heads for the lowest bid. Foreign consultants say they are surprised at what Kuwaiti contractors will take on, knowing that with such low costings they are bound to lose on the job. Here local conditions prevail. Local companies, though like the rest on fixed price contracts, "will go back and renegotiate," said a consultant.

Though most contracts are fixed price, there is some room for manoeuvre. For instance, Ministry of Public Works contracts are generally lump sum fixed fee, where the fixed fee in fact constitutes a ceiling to the price. Quite often as the contract progresses, the job grows, giving room for new negotiations. Very often though bids are submitted as fixed price, consultants and clients are aware that change is likely and consequent repriced.

But, said a consultant, "In one case we were losing money and went to the client. They were not sympathetic. It was partly due to inadequate management. The next time we wrote the specifications very carefully."

Last year's Planning Ministry directive that local consultants

should get a larger share of the work then going to international consultants is a fine long-term policy but in the shorter term has problems. Local consulting companies are definitely increasing their activities both in terms of volume of business and expertise. However, there are still shortages of skills in areas such as heavy civil works engineering.

Leading firms, such as Pan Arab Consulting Engineers, Kuwaiti Engineer's Office or Sabah Abi Hanna and Salem al-Marzouk, want the experience of working with international

Contractors
and consultants

CAROLINE MONTAGU

consultants but cannot provide skills to match the foreign associate. "The Ministry of Planning doesn't really understand the problem created for international consultants by the obligation to take on local staff. We have to carry them."

As international concerns now have to have local associates, leading Kuwaiti consulting firms are in the fortunate position of being able to pick and choose among the international consultants. They tend to want the lead consultancy position, but some have a more realistic attitude to their expertise. One long-term consultant in public utilities in Kuwait took on a local company for the first time recently, but said: "It's really a bit of a nonsense. The firm is mainly staffed with expatriate Arabs with a sleeping Kuwaiti partner. Kuwaitis are very unwilling to work in utilities."

The most fundamental rule, it appears, is to create and keep good relations with the clients and to anticipate crises. Client Ministries will consider claims if notified at the time. Cost escalation payments do exist. A

Korean contracting company gained KD 0.3m extra from a labour cost escalation clause on a KD 7m contract. But, said another contractor, "We tried to write in a clause against foreign exchange fluctuations and they said no. The best way of minimising risk lies in the effort to get on with the client."

Foreign contractors who hitherto have been free of paying corporation tax are also feeling a chill wind. Though there has been no change in the 1955 corporation tax law, the Tax Department of the Ministry of Justice is tightening up and is prepared to conduct investigations.

Companies may successfully plead losses one year "but the next time you'll be asked why are you still here?" said a contractor. Partnerships, though not incorporated, seem too to be due for tax, though this is being disputed. The interpretation that partnerships are not incorporated cuts little ice with the tax department. And final payment on contracts will not be released without tax clearance documentation.

Last autumn's clampdown on illegal immigrant labour by the Interior Ministry has affected both international companies and local concerns. Local contractors, particularly major operators such as Mohammad Abdel Mohsin Kharad, rely to a big degree on subcontractors and their labour gangs. With the deporting of some 60,000 illegal labourers the cost of a labourer has now gone up from KD 5 to KD 15 a day during the past few months. There have been consequent contract escalation costs and ultimately increased costs to the client.

"From the domestic servant to the financial director of a local contracting company the law rules caused panic and alarm," said a contractor. These clampdowns seem to be periodic and it is likely with such Kuwaiti dependence on immigrant labour the Government will somewhat soften its stand.

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POLITICS

KUWAIT XV

Challenges ahead for revived democracy

IF OTHER Gulf Arabs look to Kuwait for political leadership in the region, it is for one reason only—the existence of its Parliament. In the Gulf, this assembly of elected deputies is unique, and in the Arab world as a whole, conspicuously rare. Democracy in the Arab World becomes a more and more distant dream with each Middle East crisis, for most of its peoples suffer rule by the military, single ruling parties, revolutionary command councils and monarchs who govern by decree.

Not so in Kuwait. Kuwait's constitution dates from 1962 and was drawn up by a group of Kuwaitis and a couple of Egyptian lawyers. Its text guarantees freedom of speech, universal suffrage, secret ballots—all of which in the Gulf seem almost revolutionary concepts. Read in Riyadh or Moscow, the text of Kuwait's constitution must seem like some radical party manifesto.

Precious and rare, though the assembly is, it has many detractors. It has been called a parliament of bedu. Many Kuwaiti voters still elect their representatives according to tribal loyalties. It has been called a collection of the elite elected by the elite. At the last election in 1981, the electoral roll represented only 3 per cent of Kuwait's population; only 45,000 people were eligible to participate in the ballot to elect 50 members. Some of its constituencies number only 2,000 people.

In Kuwait, only those citizens who can trace their origins in the state back to 1920 and before, are allowed to vote and stand as candidates. Women, so far, have been denied the privilege of the vote, but their groups are said to be working hard on that by canvassing individual deputies. However, while all males in the Gulf area are denied any democratic rights, it would be difficult, and potentially embarrassing, for Gulf rulers, to see Kuwait award its women the right to vote.

The fact remains, however, that while Kuwait hotly debates whether women should be allowed to vote, other Gulf nations are busy with consultative councils appointed by the ruling families. In terms of democracy, Kuwait is light years ahead of its neighbours, a factor which adds to the vulnerability of the national assembly.

Parliament has already suffered one suspension in 1976 when the Emir became concerned over its increasing truculence and the growing tension resulting from the Lebanese civil war. In one stroke he wiped out a 14-year record of uninterrupted democratic rule. The intervening five-year period left a bitter taste in the mouths of many Kuwaitis.

Elections were allowed to

take place in 1981. However, the ballot was preceded by some careful re-drawing of the constituency boundaries which successfully watered down the Shia vote. The result was the return of safe and loyal conservatives to the assembly—a set of conservative backbenchers," commented one Western diplomat.

The new element of conservatism was due largely to the increased representation of the Kuwaiti bedu, a sector of the population traditionally loyal to the Emir and his family. The Arab nationalists gained only one seat, and that was largely because the candidate had impressive tribal credentials in the area in which he was competing. The religious fundamentalists gained a strong foothold, with three Shia representatives in the assembly. Two Muslim Brotherhood members and two "Salafi" noted for their Wahhabi sentiments. Such classifications are only political shorthand by observers; Kuwait allows no political parties.

The religious element in the assembly has pushed for a number of changes in the personal and constitutional laws. One item on their agenda is the banning of alcohol for Kuwait's diplomatic community. The Government is hoping

The assembly

KATHLEEN EVANS

that the vote on that issue can be taken in secret, with the Press and public excluded, so that members can avoid embarrassment if they vote against the motion. The religious bloc is also attempting to instil into the constitution that Sharia law is the sole basis for law in Kuwait, rather than its main source as the constitution currently states. They are also insisting that every Kuwaiti national be Muslim, a move which the Government is opposing on the grounds that it is against the constitution which guarantees religious freedom.

Despite its general conservative favour, Kuwait's liberals say the assembly has performed better than they expected, and has gained a lot of experience in the two years since their election. An indication of this, they say, is the opposition which has formed in the face of the Government's attempts to alter the 21-year-old constitution.

The legislation put forward by the Government stems from a committee which was established during the period of the parliamentary suspension. The committee was given the brief of studying possible changes in the constitution, and its report has formed the basis of the legislation now being considered by the national assembly. The bill seeks to amend a number of articles dealing with the voting

procedures in Parliament. Essentially this would make it tougher to pass a bill already rejected by the Emir. In future all bills sent for reconsideration to the assembly will require a two-thirds majority, or 44 members, rather than a simple majority vote as is required currently in the constitution. Members say that such a vote is near impossible to attain and thus the amendment significantly weakens the power of the assembly. Western diplomats agree.

The Emir is also seeking the right to introduce martial law in periods of "exceptional circumstances" for an unspecified length of time. At the moment, the Emir has to seek approval for martial law and the length of its duration from the assembly within 15 days.

The package of the amendments contains some sweeteners for the assembly. The Government has offered to increase the number of deputies from 50 to 60. However, most members of Parliament feel that such a tactic would have the result of diluting the opposition and increasing the bedouin vote in the chamber. There would also have to be an increase in the number of ministers in Parliament to maintain the one-third ratio between the parliamentarians and government members.

The assembly has already agreed to discuss the amendment in a vote which registered 37 members in favour and 27 against. However, following rejection of the legislation from a Parliamentary sub-committee, it is likely that when the bill resurfaces in the assembly, each amendment will be discussed, item by item. This will inevitably lead to a protracted and painful debate, and few members believe the package will be passed by Parliament.

Political commentators in Kuwait believe the timing of this legislation to be significant. With a war in the north just 60 km from Kuwait City, and growing tension in Lebanon, the Arab world is a political tinderbox.

The national assembly has been known to sidestep delicate matters on foreign affairs issues when times are sensitive. Debates frequently take place several weeks after an incident, never when the issue is still current and hot. The day after Iran's major offensive began this month, the matter passed unmentioned by the next day's ordinary session of Parliament.

Nevertheless, the Kuwait national assembly is currently one of the few channels for free expression where the issues which face the region can be discussed. Last year, the assembly showed its disapproval of the Syrian Government's actions in Hama and vetoed an extension of finance for the Arab Deterrent Forces in Lebanon. Shortly after, two Kuwaiti diplomats were assassinated in a series of incidents that parliamentarians see as not unconnected with the assembly's anti-Syrian voting record.

However, when Lebanon was invaded last summer by the Israelis, the assembly did not recall its members back from holiday for an emergency debate. By the time, Parliament was reconvened in October, it was the Souq stock exchange crash which dominated their attention.

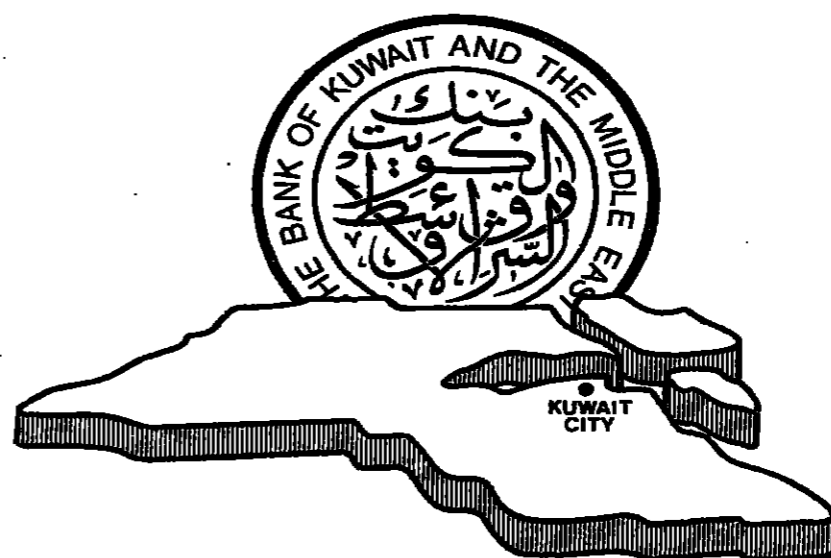
Members say in their defence that there was very little that Kuwait and its parliament could have done any way. Nevertheless, the Israeli invasion of Lebanon has stimulated one motion for discussion. A number of deputies have supported a move to discuss, and possibly re-examine, Kuwait's relationship with the U.S. in the light of their support given to Israel during the invasion. It will be the first time that such a subject has been openly discussed in the Gulf area, and no doubt the debate will be watched with enormous interest from other Gulf nations.

Such attention is hardly welcomed by governments in the area, for sensitive topics such as relations with the U.S. are usually discussed in private. Not surprisingly, some Kuwaiti commentators see the Gulf Co-operation Council as a grouping of anti-democratic regimes whose interests do not coincide with the maintenance of democracy in Kuwait. In the past, the Saudis have been much criticised by debates in the national assembly.

At the moment, there appears to be an identity of views between the government and the assembly about the proposed Gulf security pact. The Gulf Kuwaitis have already rejected a clause in the treaty which gives the right of pursuit of neighbouring police and military forces up to 20 kms of its territory.

Some deputies in Parliament find other parts of the treaty even more alarming. One clause calls for the banning of all books and magazines which carry material which may be offensive to governments and rulers of GCC member states. While freedom of the Press is guaranteed in Kuwait, there has nevertheless been a series of confiscations around the local book shops, of books dealing with local historical matters.

The assembly is likely to face growing pressures in the future from its conservative neighbours as the Gulf Co-operation Council strengthens. Ahmed Soudoun, deputy house speaker, says diplomatically: "We welcome the establishment of the Gulf Co-operation Council, and we hope that the council will be more responsive to peoples in the area by granting them the opportunity to share in decision-making." Admirable sentiments, but ideas which may not be welcome everywhere in the Gulf.



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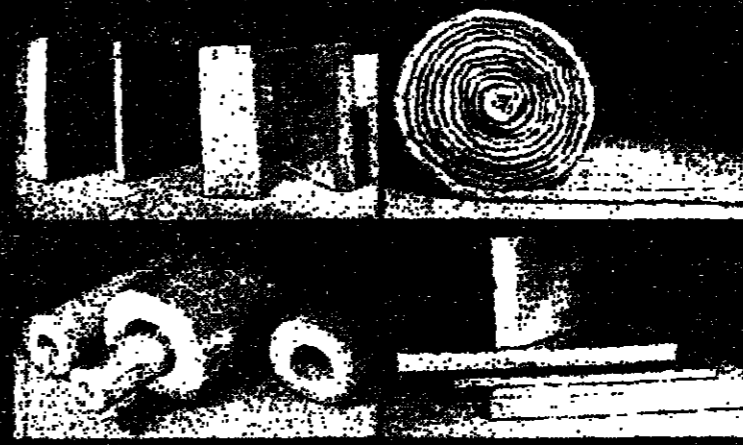
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A key element in foreign policy

Development aid

PATRICK COCKBURN

SINCE independence in 1961 aid has always been a key element in Kuwaiti foreign policy. Having evaded an initial territorial claim by Iraq it was clear that Kuwait must use its oil wealth to win allies, conciliate enemies and ensure general good will.

But if the initial and continuing aim of Kuwaiti aid is political and this is true of all aid the way in which it is dispensed is generally more useful to the recipients than that of other donor states. This is all the more important as the world depression deepens.

Generous donors like Saudi Arabia are already feeling the constraints of reduced oil revenues. Going by previous experience in 1977-78 this will lead to a cut back in grants. In Kuwait, however, there is normally greater continuity in dispensing aid. This falls into two categories. Half of aid is given on a government to government basis. This includes budget support and mostly goes to Arab countries, primarily those confronting Israel. Before Camp David this meant Egypt, Jordan and Syria but the Baghdad summit in 1978 cut off aid to President Sadat.

Over the last four years Syria and Jordan have received heavy subsidies through the Government, but since 1980 the sums they receive have been curbed by loans to Iraq. Baghdad has now received \$60m in 28 months and is looking for further subsidies. Some Kuwaiti officials are adamant that no more will now be paid, but diplomats are convinced that the loans will not be cut off.

Government to government aid is not confined to Kuwaiti allies and friends in immediate financial need. Kuwait has always been willing to make friends in the Third World with less regard to their political

stance than Saudi Arabia. Even so concessional aid is heavily biased towards the rest of the Arab world. Aid disbursed through the main development funds is less political and is orientated towards projects. In Kuwait about half of aid (excluding the loan to Iraq) goes through the Kuwait Fund for Arab Economic Development.

The KFAED is the doyen of Arab aid funds. First established in 1961 it has been the model for the 10 funds set up individually or jointly by the Arab oil producers. By 1980-81 its cumulative loans had reached KD 784m in 156 loans going to 153 countries.

Of this total 60 per cent went to Arab countries, 24 per cent to Asian countries and 15 per cent to African countries. Most of these funds have been distributed since 1975 when Kuwait was benefiting from 1973-74 price rises. Between the beginning of 1973 and the middle of 1981 loans worth no less than KD 626m were made.

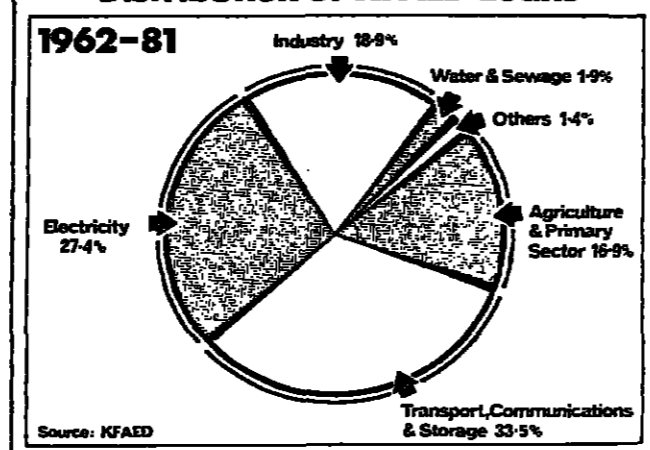
At the same time there has been a significant shift away from project aid to Arab states, much of which now goes in the form of concessional aid on a bilateral basis. In 1980-81 for instance loans to Arab countries accounted for only 36 per cent of the total and Asian countries stood at 35 per cent. This trend is likely to continue.

Before Camp David, Egypt was a major recipient of KFAED loans. Today the country receiving the most aid is Jordan and Tunisia. Both need the money but, unlike many other countries in the developing and Arab world, their administrative machinery and educational levels are high enough for them to put forward numerous worthwhile projects.

The emphasis by the KFAED is mainly on infrastructural projects. Because of the fund's long experience it is particularly influential in arranging co-financing for projects. The KFAED is also well equipped to monitor the feasibility of schemes before they start and then to keep a close eye on their progress.

In countries like Mauritania and North Yemen, where

Distribution of KFAED Loans



administrative capacity is limited, the provision of technical expertise is all the more necessary. In the latter country, for instance, the KFAED has been particularly involved in financing local schools.

There is now more co-operation between the different funds established by the oil states, but officials of the KFAED say that more funds will be needed over the next few years just when oil revenues are diminishing in most Opec states. The Iraqi Fund for External Development (IFED), for instance, after a major burst of lending in 1980-81 made loans of only \$37.7m in the first half of 1982. Other funds will also feel the pinch.

But the KFAED is unlikely to be much affected. Its capital was doubled to KD 20m in 1981. Last year there was a burst of lending to a total of \$25m to mark the 20th anniversary of the fund. This included loans to China (KD 24.3m) and Sri Lanka (KD 12.9m).

The current slump in the oil market "will affect and leave its mark on Kuwaiti assistance," says a KFAED official. At the same time the need for such assistance will grow. For the moment, for instance, "the situation in Lebanon does not

allow us to do anything," but this will change.

At the same time there will be greater demand for government assistance to government assistance from the Kuwait. Developing countries will clearly find it more difficult to garner funds on the commercial market. This gives greater significance to the other funds to which Kuwait is an important donor.

These include the Opec Fund for International Development (OFID) which is based in Vienna and draws most of its funds from the seven Arab members of Opec. It was set up in 1974 after the 1973 oil price rise as was the Arab Bank for the Economic Development in Africa and the Islamic Development Fund.

But the most important of these aid funds from the point of view of Kuwait is the Kuwait-based Arab Fund for Economic and Social Development. The largest shareholder in this is Saudi Arabia-Kuwait and Libya and, since it was set up in 1971, all members of the Arab League have been able to obtain loans. Its operations are in many ways similar to those of the KFAED. Its capital was recently increased to KD 800m and last year it made 30 loans worth \$269m bringing total loans to \$1,602m.

Scope for playing the role of mediator restricted

THE limitations of money as an instrument of foreign policy was never more apparent than among the Gulf oil states over the last year. Heavy subsidies to Baghdad failed to stop the Iraqis driving the Iraqi army west and inflicting a significant defeat on them at Khavran-shahr. Interim Arab and Islamic mediation has got nowhere.

The Israeli invasion of Lebanon last June provoked a rhetorical counter-offensive by the oil states, but they and their allies in the Arab world were unable to do anything. Payments to Syria and Jordan, as confrontation states do not address the military imbalance between them and Israel. By the year's end Israeli tanks in Lebanon were within 50 miles of Damascus, the Iranian army within 100 miles of Baghdad.

With two wars preoccupying the Arabs on the shores of the Gulf and the Mediterranean, Kuwait was left with little room to play its favoured role as mediator. In the past this small city state has always sought to arbitrate between the conservative and radical states in the Arab world, but the violence of current conflicts in the region leaves little room for mediation. Kuwait and the other oil states

were forced to stand by as spectators. The war between Iran and Iraq is the first object of Kuwaiti concern. It is now entering its third year and there is little sign that it will stop. Tehran seems determined to destroy the Iraqi regime either by attrition or by outright assault. If its plans succeed then Iran becomes the super power of the Gulf.

This is an outcome which Kuwait is striving to avoid. Though the battlefront east of Basra is not far from its northern border, the conflict has little impact on the country. It is well over a year since the Iraqis bombed a Kuwaiti oil installation at Umm al Aish in northern Kuwait. Damage was small but the raid was interpreted as a warning by Tehran against Kuwait pressing its support for Iraq too far. The point had already been made when the Iraqis bombed a Kuwaiti border post.

Otherwise the war does not directly affect Kuwait. Even the boom in transit and re-exports to Iraq has ended as the Iraqis run low on cash and limit their development programme. Planes from here to Baghdad are booked solid for two or three weeks ahead," said

one Kuwaiti official. "But you will find few Kuwaitis on them. They are mainly filled with Egyptians and expatriates who work in Iraq."

The present stalemate on the battle field, which has existed since last summer, is in Kuwaiti interests. The country's two

Foreign policy

PATRICK COCKBURN

most powerful neighbours are wholly involved in the conflict. "The present situation is ideal for Kuwait but they fear it cannot last," says a diplomat. They fear also that Iraq will collapse and they will be left to face a triumphant Iran conscious that Kuwait and the other Gulf states have funded and supported the Iraqi war effort.

From the start of the war President Saddam Hussein of Iraq needed financial aid from the Arab oil producers with a cash surplus. This was not too difficult to extract in the first two years of fighting. The war itself sent up the price of crude and Saudi Arabia, Kuwait,

Qatar and the United Arab Emirates could well afford to pay out of their current income.

Kuwait paid \$6bn in \$2bn tranches as well as some oil products provided free. Some \$12bn was paid by Saudi Arabia and \$6bn together by the UAE and Qatar. This year, however, Kuwait is clearly reluctant to pay up again. Conscious of the fall in their oil revenues, a budget deficit, and the money needed to bail out the Souq al-Manakh, Kuwaitis are averse to another drain on their reserves.

"Let the Saudis pay," said an official with mock seriousness, but diplomats in Kuwait believe that the Government will pay up in the end. After all paying Iraq is an old tradition in Kuwait established when Iraqi President Qassem threatened to take over the country in 1961 when it gained independence from Britain.

Iraqi financial needs are clearly very pressing. Since the Syrians cut the Iraqi pipeline across their territory Iraq has been unable to export more than 600,000 barrels a day of crude. When Saddam Hussein visited Riyadh last month he is believed to have asked for another \$7bn from the four donor states. This has created much griping but in the end he will probably get it.

Kuwait's reluctance to pay up is all the more because of the refusal of the Iraqis to discuss the issue of the border which has been in dispute for years. In the early 1970s there were occasional skirmishes when the Iraqis encroached on what Kuwait claims is its territory. The ownership of Bubiyan island is also contested by Iraq.

But Kuwait is used to dealing with Iraq both before and after the Baath party came to power in 1968. Iran is not only more dangerous to Kuwait, it is a different way to Kuwait's traditional rivals. It is, therefore, very difficult for the Kuwaiti Government to establish any real contact with the leadership in Tehran.

With Iranian oil production touching 3.2m b/d and reserves



The historic first meeting of the Gulf Co-operation Council. As the war between Iran and Iraq has continued, Kuwait has been compelled to rely more on the GCC

estimated, to be 35-60bn the Iraqis no longer need money. In Opec they have allied themselves with Libya, but are fairly open in seeing their role in Opec as being but another aspect of their war against Iraq. Trade with Iran remains limited, though Iraqis do seem to be buying small pickup trucks.

With little leverage over the two powers to the north, Kuwait is compelled to rely more upon the Gulf Co-operation Council set up in 1981 to provide some unity to the Arab oil states of the western Gulf. The GCC has clearly increased Saudi influence among the other states, but it too is largely a spectator in the affairs of the region.

Kuwait's enthusiasm for the GCC has generally been less

than some of its other neighbours. It is on the liberal wing of the grouping, opposing Oman's military exercises with the Americans and some aspects of the domestic security agreements. Kuwait has also been more restrained in building up its armed forces and buying weapons than in the rest of the GCC.

Kuwait foreign policy is also very much averse to anything which would lead to the American Rapid Deployment Force playing a role in Gulf defence. So, in theory, is the rest of the GCC but the new anti-aircraft radar and missile system now being constructed makes little sense unless it has U.S. backing.

But of all the conservative oil states Kuwait has been the most critical of U.S. policy. It

has diplomatic relations with the Russians and periodically attempts to persuade its neighbours to do the same. Officials argue that by having no great power ally except Washington the Saudis have muted their influence because the U.S. believes they have nowhere else to go and can therefore be disregarded on many issues.

Overall, however, the two wars in the region over the past year has prevented Kuwait playing its traditional mediating role except in one instance. Oman and South Yemen have long been enemies but in talks under Kuwait auspices last October the first steps on normalising relations were taken. Last month further meetings took place in Abu Dhabi between the two countries to define their common border. The Omanis are not very trusting of the South Yemenis and vice versa but Kuwait is satisfied with its role in mediating.

Kuwait foreign policy also differs from that of its GCC neighbours in that it is susceptible to a measure of public pressure. The National Assembly does, for instance, make it more difficult to give money to Syria and murmurs against subsidising Iraq while the border differences remain unresolved.

Only Kuwait can sit or vote for the assembly but the 250,000

Palestinians in the country are also an important political constituency. They provide most of the journalists who produce Kuwait's newspapers, the freest in the Arab world after Lebanon.

Even so there was not much Kuwait could or did do when the Israelis invaded Lebanon and laid siege to Beirut in June. With Iraq caught up with fighting Iran and Egypt sitting on the sidelines the two most populous Arab powers in the region were clearly going to do nothing. The GCC could do little but issue statements.

In the months since the evacuation of the PLO from Beirut, Kuwait has been waiting to see how the Reagan plan will develop. Last month King Hussein of Jordan passed through Kuwait briefing the leaders on his talks in Washington and Moscow. He clearly wants to get Gulf support if he decides to go ahead with talks after obtaining PLO backing. The Kuwaitis are agreeable to this but without much optimism.

Over the next year Kuwait will wait to see how the two main conflicts in the region will turn out. There is little the Government can do to effect the issue in either case. There is too little room to manoeuvre and for the country to pursue its old policy of mediation and balance.

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Emphasis on diplomacy rather than arms

EVERY so often in Kuwait city the Government has erected neat orange signs which say "public shelter" and point to the basement of some large building. Other than this there are few signs that the main battle field in the Iran-Iraq war is only 100 miles away.

In the first two years of the war Iranian aircraft intermittently entered Kuwaiti airspace and made a number of attacks on the post on the border with Iraq. In October 1981 an oil installation at Umm al Aish was bombed and this was widely interpreted in Kuwait as a warning by Tehran.

Since then the Iranian air force has not reappeared. This can be partly explained by the decline in Iranian air power (with less than 90 serviceable combat aircraft left) but there is always the possibility that attacks will be resumed.

In general, however, Kuwait has reacted differently from its Gulf neighbours to a possible threat from Iraq. The other five members of the Gulf Co-operation Council—Saudi Arabia, Bahrain, Qatar, Oman and the United Arab Emirates—have all added to their already bulging arsenals since the outbreak of the Shah. By 1981 even a country as small as Qatar with only about 70,000 citizens was spending \$892m on defence. This expenditure was given a further boost by the outbreak of the Iran-Iraq war in September 1980.

Kuwait's defence expenditure has been more limited, totalling only \$1.3bn in 1981. The country continues to rely largely on diplomacy and establishing good relations with potential enemies. The armed forces are more of a trip wire against a foreign attack and for domestic security. They do not provide a military option.

Kuwait's different approach is largely a result of the state's experience over the last 20 years. When it became independent in 1961 it was immediately claimed by President Qassem of Iraq. The British flew in troops to defend the newly independent oil state. The immediate threat disappeared but Iraq still recalls that Kuwait had once been part of Basra province under the Ottoman empire.

Kuwait in turn was always conscious of the potential danger from Iraq which needed to be averted. From the early 1960s on Kuwait adopted policy of dispensing financial aid at the same time as it tried to stay at the point of balance in the affairs of the region.

In 1972 the Iraqis tried to build a road through territory claimed by Kuwait. In the following years there was skirmishing when Iraq occupied a police station at Samitha on the border. At the same time Iraq has long been anxious to take over the islands of Bubiyan and Warba which would extend Iraq's narrow coastline. Despite

the \$6bn Kuwait has given to Iraq, President Saddam Hussein has not compromised on the border.

Ever since the Iraqis offered to lease Bubiyan, Kuwait has been anxious to reinforce its sovereignty by developing the island and establishing some military posts there. This will prove an expensive business. The French have recently completed a bridge linking Bubiyan to the mainland and a road network is likely to be developed there.

But for the moment Bubiyan is largely uninhabitable. Its highest point is only 1.5 metres above sea level and at its northern end it turns into dreary mud flats inundated at high tide. Its soil is not only marshy but contains far more salt than the sea water which surrounds the island. There is little prospect of agricultural development.

The marshy nature of the soil also limits military deployment. Tanks are sold to Iraq but bogged down when sent to the island. In future, however, greater military facilities are likely to be built on Bubiyan as a precaution against Iraq.

Relying, therefore, on diplomacy and financial subsidies rather than armed force Kuwait has given less attention

Defence

PATRICK COCKBURN

to building up its military strength than other GCC members such as Saudi Arabia with its \$25bn military expenditure. Most of its soldiers are Kuwaitis and there is 18 months national service, but there are only 12,500 men in the armed forces as a whole.

The 10,000-strong army is organised into two tank brigades and three mechanised infantry battalions. There is also a surface to surface missile battalion. The main battle tanks are British Chieftains though these may soon be re-equipped. In the desert outside Kuwait city the sand is often pock marked with scrapes where the tank brigades exercise.

The air force is also limited in scope. There are two squadrons of Skyhawks and 17 Mirage F1s. General Abdullah Faraj al-Ghanim, the Chief of Staff, recently confirmed that the air force had contracted to buy another 12 Mirage F1 fighters from Avions Marcel Dassault-Breguet Aviation.

He denied, however, that Kuwait had agreed to buy advanced Mirage 2000 aircraft. Kuwait was said to have signed an agreement last year for its pilots to be trained on the Mirage 2000. In November 1982 France said it would sell Kuwait advanced military equipment.

Like the other oil states on the western side of the Gulf, Kuwait is extremely vulnerable to attacks on a few vital facilities such as the power stations and desalination plants. There is greater emphasis today on security against sabotage and there is a police force reported as numbering 18,000.

Overall Kuwait has a more acute sense of its military needs than other oil states with their vast arsenals and reliance on expatriate troops. Like the other three richest states in the GCC Kuwait will help to fund the military purchases of Bahrain and Oman, though subsidies to the latter have been delayed because of disagreements over the type of equipment needed.

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